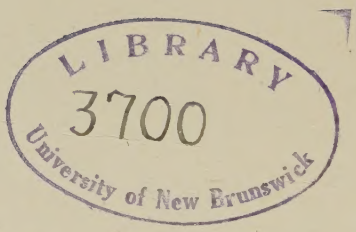
HG844.S82

Monetary and banking policy of C
UNIVERSITY OF NEW BRUNSWICK LIBRARIES

3 9950 00442817 4

332.1
S941m



Publications of the

Carnegie Endowment for International Peace

Division of Economics and History

John Bates Clark, Director

MONETARY AND BANKING POLICY OF CHILE

LIBRARY
332.1
S941m
University of New Brunswick

BY

GUILLERMO SUBERCASEAUX

Professor of Political Economy in the University of Chile

EDITED BY

DAVID KINLEY

President of the University of Illinois

3100

OXFORD : AT THE CLARENDON PRESS

London, Edinburgh, New York, Toronto, Melbourne, Cape Town, Bombay

HUMPHREY MILFORD

1922

3700

Printed in England

EDITOR'S PREFACE

THIS study of the monetary and banking policy of Chile and the disturbances created therein by the World War is a welcome contribution to economic literature. While the main interest of the study at the time it was undertaken was in the disturbance of the monetary and banking system caused by the World War, that is now the smaller part as well as the less important part of the work. We in North America are not sufficiently acquainted with the economic life of our neighbours to the south, so that this contribution by a distinguished Chilean citizen of the faculty of the University of Santiago, who was at one time a member of Congress of the Republic of Chile, has an especial value for us. It will be helpful, too, as showing once more that there are certain great principles of monetary science and practice which obtain and control in all civilized countries under very diverse economic, especially monetary, conditions.

The monetary experience of Chile has been greatly varied and is still unsettled. The conditions prevailing from 1914 on could not well be understood without some historical background covering a part, at least, of the field which Professor Subercaseaux covers in this monograph. This, as well as the inherent value of the treatise, is the reason for the somewhat long introduction. For the rest Professor Subercaseaux's standing as an economist is a sufficient guarantee of the quality of the work.

DAVID KINLEY.

URBANA, ILLINOIS,
July 18, 1921.

PREFATORY NOTE

The Carnegie Endowment for International Peace did me the great honour of entrusting to me, through the mediation of my distinguished colleague Professor David Kinley of the University of Illinois, the elaboration of a study bearing upon the monetary and banking policy of Chile, at the same time requesting me to accompany it with a brief historical survey and to set forth in it the influences of the World War.

I have endeavoured to treat the subject clearly and with the spirit of impartiality befitting books of this kind, in order that the work may be of service, not only to professors and students of political economy, but also to practical men of affairs who may wish to know something about the economic institutions of South America.

Guillermo Subercaseaux.

CONTENTS

CHAPTER		PAGE
I.	The origin of money in America	1
II.	The monetary system of the colonial period	4
III.	The origin of the Spanish-American *peso*	9
IV.	The currency of the colonial period prior to the establishment of the mint	12
V.	The establishment of the mint and its results	17
VI.	The weight, fineness and exchange-ratio of the coins struck at the mint	21
VII.	The purchasing power of money as reflected in the general level of prices at the close of the eighteenth century	28
VIII.	The reason for the non-existence of banks in the colonial period	34
IX.	The transition from the currency of the colonial period to that of the independent republic	36
X.	The monetary situation of Chile in the first years of its independence	39
XI.	The first monetary law approved by the National Congress	44
XII.	The monetary law of 1843	48
XIII.	The subsidiary or 'token' coins	50
XIV.	The first efforts put forth to establish a bank in Chile	52
XV.	Continuation of the efforts put forth to establish banks in Chile	56
XVI.	The failure of the bank enterprise of Señor Arcos	60
XVII.	The monetary law of 1851	64
XVIII.	The monetary law of 1860	66
XIX.	The development of views in favour of the free issue of bank notes, and the establishment of the first banks	68
XX.	The bank of issue law of July 23, 1860	73
XXI.	The mortgage bank law of August 29, 1855	76
XXII.	The first credit crisis	78
XXIII.	Monetary and banking developments up to the crisis of 1878	81
XXIV.	The crisis of 1878	85

CHAPTER		PAGE
XXV.	The laws of July 23, 1878, and September 6, 1878, declaring the bank notes inconvertible	88
XXVI.	The modification of the economic condition of Chile caused by the declaration of war against Peru and Bolivia	93
XXVII.	The monetary and banking condition of Chile after the war against Peru and Bolivia	96
XXVIII.	The conversion law of March 14, 1887	99
XXIX.	The civil war of 1891	102
XXX.	The law of September 10, 1892, authorizing the making of contracts in any form of gold or silver currency	104
XXXI.	The conversion laws of 1892 and 1893	105
XXXII.	The definitive conversion law of February 11, 1895	110
XXXIII.	The gold *régime* of 1895–8	115
XXXIV.	The initiation of the new paper *régime* in 1898	118
XXXV.	The period of inflation from 1905 to 1907	120
XXXVI.	Observations upon the policy of periodically increasing the circulation of treasury notes	124
XXXVII.	The establishment and development of foreign banks	128
XXXVIII.	The foreign banks considered from the standpoint of the economic interests of the country	131
XXXIX.	Monetary developments from 1907 to 1913	136
XL.	The development of banking operations in Chile	142
XLI.	The Conversion Fund	144
XLII.	The Report of the Monetary and Banking Commission of the Government of Chile	145
XLIII.	The Conversion Fund project approved by the Government in December 1913	152
XLIV.	The effect of the outbreak of the World War upon the economic and monetary condition of Chile	156
XLV.	The law of May 22, 1918, regarding the *Caja de Emisión*	167
XLVI.	The need of an institution to regulate bank credits and note issues	171
XLVII.	The bank of issue project of 1918	173
XLVIII.	The economic and monetary condition of Chile after the World War	175
XLIX.	The status of the Conversion Fund	180
L.	Summary of facts regarding the monetary system of Chile in 1919	182

CHAPTER		PAGE
LI.	Reasons for the delay in the reformation of the Chilean monetary system	184
LII.	The effect of the World War upon the foreign banks	186
LIII.	The establishment of the *Oficina de Inspección Bancaria*	187
LIV.	The more common operations of the banks	189
LV.	The fluctuations of exchange	196
LVI.	The quantity of treasury notes and bank notes in circulation	199
LVII.	The development of the operations of the *Caja de Crédito Hipotecario*	200
LVIII.	The operations of the *Caja de Crédito Hipotecario* in foreign currencies	203
LIX.	The organization of mortgage banks by private companies in conformity with the law of 1855	205
LX.	Quotations of the mortgage bonds of the *Caja de Crédito Hipotecario* and other mortgage banks	206
LXI.	The intervention of the government in the operations of the mortgage banks	210
LXII.	The establishment and development of savings banks	211
LXIII.	The value of the exports and imports of Chile	213
LXIV.	The public revenues and expenditures of Chile	214
INDEX		215

CHAPTER I

THE ORIGIN OF MONEY IN AMERICA

Economic science has its theory regarding the origin of money. According to this theory it was a spontaneous outgrowth of the social-economic life of those communities where private property existed and where a certain division of labour was established by means of the barter or direct exchange of products.

In the gradual development of trade relations it came about that certain products acquired more and more prestige by reason of their being more merchantable than others, so that in the course of time these products themselves began to perform the functions of money.

Thus in the first stage of its life money was a commodity which was intended for consumption, like all other commodities, and the value of which, likewise, as in the case of all other commodities, sprang from the very use of it.

Later on, as monetary practices developed and as a result of the establishment of the quality of legal tender by the state, the monetary character of the commodities performing the functions of money became more and more accentuated, so that these commodities came to be used less and less as articles of merchandise ; that is, they lost a part of their intrinsic value as a means of satisfying the ordinary requirements of consumption, as is true of subsidiary currency and, to a still greater extent, of paper currency. The character of a commodity possessed by money in the beginning became dominated by the character of the means of exchange and the measure and standard of value possessed by money properly so called.

What do we learn from American history in confirmation of this theory ?

When the Europeans arrived in America, with Christopher

Columbus at their head, the more civilized American communities had not yet passed that first stage of social-economic life in which there was no real money. At the most they had certain commodities which were more merchantable than others, and which consequently performed, in a certain incipient way, the ordinary functions of money.

In ancient Mexico, where the most advanced civilization of North America was constituted, the direct exchange of one commodity for another was the general practice in trade relations. Of the various products brought to the Mexican markets, however, there were some which were more or less preferred in these exchange transactions, and which consequently served, in a certain way, the purposes of money. Among these commodities were a variety of cacao, pieces of cotton cloth, gold dust enclosed in small, transparent quills, certain pieces of copper and tin, cut in the shape of a '**T**'.[1] According to the historians and chroniclers of that time, the nuts of the cacao-tree constituted the commodity most commonly used for monetary purposes in that part of North America. Everything was bought and sold for them. The Spaniards who entered Mexico with Cortes found the emperor possessed of great wealth in the form of stored-up cacao-nuts.[2] Nevertheless, it seems that at least a large part of the tributes exacted from the people subject to the Mexican monarch was paid in the form of fruits, animals, minerals, feathers, skins, &c.[3]

The early settlers of New England found the Indians using certain shell beads, called *wampum* or *peag*, as money ; and they also used them to make belts and necklaces for their personal adornment.[4]

As regards the inhabitants of the ancient Peruvian empire of the Incas, while their civilization was in many ways more advanced than that of most of the other South American peoples, nevertheless we do not find that they achieved any

[1] Francisco Saverio Clavijero, *Historia Antigua de Mexico.*

[2] J. T. Medina, 'Monedas usadas por los indios,' in the *Anales de la Universidad de Chile* (1910).

[3] Francisco Saverio Clavijero, *op. cit.*

[4] Laughlin, *The Principles of Money* (London, 1913).

notable progress in the development of monetary institutions—due, I believe, to the communistic character of their social-economic organization. Gold and silver had no monetary value in Peru at that time, the Indians alone valuing them, 'on account of their beauty and lustre, for the adornment and service of the royal palaces, temples of the sun and houses of the virgins.' [1]

But the dominating *régime* in early American trade relations, prior to the arrival of the Europeans, was barter or the direct exchange of one commodity for another, certain commodities having been distinguished from others by reason of their being more merchantable. The fact of the matter is, as observed by Father Acosta, that for the transaction of business, that is, for the purposes of buying and selling, 'the Indians did not have any money, but merely exchanged one thing for another, as did the ancients referred to by Homer and Pliny. Certain things (he continues) were held more valuable and consequently passed current instead of money; and this custom has survived among the Indians down to the present day. Just as in the provinces of Mexico the functions of money were performed by cacao-nuts, so in Peru this same purpose was served by cocoa, a commodity to which the Indians attached great value. . . . Finally, their mode of conducting business, their method of buying and selling, was to exchange one thing for another; and since the markets were very large and numerous they did not miss money, nor did they have any need of intermediaries for the reason that everybody knew precisely how much of a certain thing it was right and proper to give in exchange for so much of another thing.' [2]

As regards that part of Chile which was inhabited by the Indians, a much more backward region, no evidence of the use of money there is to be found. 'Neither in the records of the chroniclers nor in the contemporary documents do we find reference to any kind of money in circulation among the Indians; and in view of the backwardness of the tribes that

[1] Garcilazo de la Vega, *Comentarios reales.*
[2] Acosta, *Historia de las Indias* (Madrid, 1792).

populated the territory it seems quite likely that none existed.' [1]

The question now arises whether in the course of time the progressive development of American institutions would have brought the country to the point of introducing a real currency of its own. The conquest of America by the Europeans interrupted the natural process of evolution, so that it is impossible to find here, as a matter of fact, any historical confirmation of the above-mentioned theory.

The transition from commodity money to real money of limited and unlimited legal tender did not take place in America as a natural process of evolution, but was brought about by the European invasion of the fifteenth century. Metallic currency was introduced into America by the European conqueror, so that the monetary history of this continent may be said to have begun with its conquest and colonization. Thus the transition from the first stage to which the theory refers was brought about, not by evolution, but by transplantation. The first real money that circulated in the new world was that imported by the European conquerors of the fifteenth century.

CHAPTER II

THE MONETARY SYSTEM OF THE COLONIAL PERIOD

When European domination was once established in America, the social-economic life of this continent began to organize itself on a monetary basis. At the time of the conquest the use of money in America was of course not as general as it is today. In Europe itself, indeed, monetary practices were much more limited, as shown by the fact that during a large part of the Middle Ages not even the armies were paid in money.[2] In Chile,

[1] J. T. Medina, *op. cit.*

[2] Lafuente, *Historia de España* (Barcelona, 1888): 'No soldier drew campaign pay until the time of Count don Sancho de Castilla; until then the leaders of the armies subsisted on what they carried with them and more especially on what they seized from the enemy.'

In primitive Germany 'each soldier supplied his own arms and took charge of his own maintenance'. T. von Wiesser, *Zeitschrift für Volkswirtschaft* (1904).

as in the other American colonies of Spain, the natives were compelled to work more or less as slaves; for very rarely were wages paid in the form of money.

The monetary system introduced into the American colonies was that of the concurrent circulation of gold and silver, that is, the so-called bimetallic system existing at that time in the European mother countries. Both metals were full legal tender, and the coinage of both was free, which means that the value of the coins was proportionate to the amount of fine metal of either kind contained in them.

Since in the bimetallic system a certain ratio or value relation is necessarily established between gold and silver, it would perhaps be interesting to know what this ratio was at that time in the European markets. Accordingly, we reproduce at this point a table showing the average ratio of the two metals from the last part of the fifteenth to the first part of the nineteenth centuries:

1493–1520	10·50 : 1	1681–1700	15·00 : 1
1521–1540	11·25 : 1	1701–1720	15·25 : 1
1541–1560	11·30 : 1	1721–1740	15·08 : 1
1561–1580	11·50 : 1	1741–1760	14·75 : 1
1581–1600	11·80 : 1	1761–1780	14·72 : 1
1601–1620	12·25 : 1	1781–1800	15·09 : 1
1621–1640	14·00 : 1	1801–1810	15·61 : 1
1641–1660	14·50 : 1	1811–1820	15·51 : 1
1661–1680	15·00 : 1		

In general it may be said that gold, on account of the higher value it always had, was used for large payments, while silver was preferred for small payments, especially in retail transactions. Gold was also largely used for international settlements, which were almost always made in that metal on account of the lower cost of transporting it; also for the purpose of private hoarding, on account of its being easier to conceal. The hoarding of gold was very common in those days, when there were few banks and much insecurity.

There was not always sufficient gold and silver in circulation, however, to enable people to choose at will between them; first the one and then the other was scarce. Moreover, the

market ratio of the two metals sometimes differed from the legal ratio, and this difference invariably resulted in the exportation of the metal of the greater relative value. If a man had to make a payment and was legally authorized to make it either in gold or in silver, whichever he preferred, he naturally selected the metal having the lower value. In practice these differences resulted in the establishment of a premium on the metal having the higher value, causing it sooner or later to disappear from circulation.

The policy of persistently maintaining an established legal ratio when there was a difference between that and the existing market ratio, and of resorting for this purpose to prohibition of exportation and various penal measures, was one which did not always produce satisfactory results; for as soon as a premium was established on either one of the two metals, it became necessary to modify the monetary system. If the premium was in favour of gold, the government had to alter the legal ratio either by arbitrarily increasing the value of the gold coins in relation to that of the silver coins or else by altering their weight or fineness. When the phenomenon was reversed, on the other hand, that is, when the market value of silver was greater than its legal value in relation to gold, subsidiary coins had to be put into circulation in order to prevent a scarcity of 'change' for small payments. In fact, therefore, a system analogous to the modern gold standard was introduced, although in theory the double standard or bimetallic system was in force. It was also possible, in the latter case, to increase the value of the silver coins by law without altering their weight or fineness (as was done in Spain by virtue of a decree of May 16, 1737), or else to increase the amount of alloy in them.

The difficulties brought about by these differences in the market and legal value of gold and silver constituted the great disadvantage of the bimetallic system, since they constantly gave rise to the necessity of altering the monetary laws. The only effective solution of the problem would have been found in the conclusion of an international agreement whereby all countries would have permanently adopted the same ratio;

but this, although in theory very easy to conceive, is in practice very difficult to realize.

The value of money as reflected in the general level of prices was very high at the time of the conquest of America. In the sixteenth century there was a pronounced rise in prices or a pronounced fall in the value of money, in Europe, due in part to the new production of the precious metals in America.

Inasmuch as the monetary system of the American republics, or at least of the majority of them, is derived from the system that existed in Spain at the time of the conquest, it will be interesting to set forth the general nature of that system here. In order that the reader may form a correct idea of it, however, he must have some knowledge of the weight and fineness of the principal coins involved, as also of their relative legal values. But in order to supply this information it is not sufficient merely to cite the pragmatics and ordinances, that is, the decrees and laws, promulgated at that time; it is also necessary to reduce the old standards to the modern standards of weight and fineness, since there are very few persons today who have an accurate understanding of the system employed at that time.

During the reign of Charles V (1500–58) Spanish gold was being exported, due to the fact that the legal ratio of gold and silver (10 : 1), established in the days of the Catholic kings, was not in accord with the market ratio. Gold was undervalued. At that time, accordingly, the legal value of the gold coins in circulation was arbitrarily increased by imperial decree, without any change being made in their weight or fineness. The decree referred to, issued in 1537, reads in part as follows:

We order that the *coronas* and *escudos* which we have caused and shall cause to be struck shall be twenty-two *quilates* (carats) fine,[1] and

[1] Pure or fine gold, i. e. gold without alloy, was considered 24 *quilates* (carats) fine, and each *quilate* contained 4 *granos* (grains). Thus each *quilate* was equivalent to $\frac{1}{24}$ or 41·6666 and each *grano* to $\frac{1}{96}$ or 10·4166 mills.

Pure or fine silver, on the other hand, was considered 12 *dineros* fine, and each *dinero* contained 24 *granos*. Thus each *dinero* was equivalent to $\frac{1}{12}$ or 83·3333 and each *grano* to $\frac{1}{288}$ or 3·4722 mills.

Thus the word *grano*, as observed by Dr. Alvarez, had two meanings as the

that sixty-eight of them shall be struck out of one *marco* (mark) of gold . . . and that each *corona* shall be equivalent in value to three hundred and fifty *maravedis*.

According to this order, the gold coins were to be 22 *quilates* fine, this being equivalent to $\frac{1}{1\frac{1}{2}}$ or 0·916 of a grm. The *escudos* were to be struck at the rate of 68 per *marco* of gold ; and since the *marco* was equivalent to 230·0465 *gramos* (grm.), it follows that each *escudo* must have weighed 3·383 grm. Thus :

1 *escudo* = 3·383 × 0·916 = 3·099 grams = 350 *maravedis*

Each gold *maravedi*, therefore, contained 3·099 ÷ 350 = 0·0088 grm.

The principal silver coin, the *real*, which was in circulation back in the days of the Catholic kings, was not modified by the decree referred to. It was a coin of the *talla* [1] of 67 per *marco*, 11 *dineros* and 4 *granos* (grains) fine,[2] this being equivalent to 0·9305 of a grm. Inasmuch as the *marco* of silver, like the *marco* of gold, was equivalent to 230·0465 grm., it follows that each silver *real* must have weighed 3·433 grm. This silver *real* was worth 34 *maravedis*, so that each silver *maravedi* must have contained 3·194 ÷ 34 = 0·939 of a grm.

The relative value of gold and silver was thus :

0·939 : 0·0088 = 10·60 : 1

The other important gold coins were the *doblón de ocho escudos* and the *doblón de dos escudos*.

Later on Philip II further modified the monetary system. Owing to the constant fluctuations of the market value of gold and silver, it was absolutely necessary to modify the monetary laws from time to time in order to prevent the exportation of

standard of fineness of the precious metals, one for gold and another for silver. As a standard of weight, moreover, the *grano* of gold was different from the *grano* of silver. Each *marco* of gold contained 50 *castellanos*, 400 *tomines*, and 4,800 *granos*, while each *marco* of silver contained 8 *onzas*, 64 *ochavas*, 383 *tomines*, and 4,608 *granos*.

[1] *Talla* is a word of frequent occurrence in the monetary laws of that time, signifying, as it did, the number of coins that had to be struck out of each *marco* of metal with its alloy. The *marco* of both gold and silver was equivalent to 230·0465 grm., and the *talla* of 67 per *marco* made each coin weigh 3·433 grm.

[2] Alvarez, *Valores aproximados de algunas monedas hispano-americanas* (Buenos Aires, 1917).

the one or the other metal. Dr. Alvarez [1] gives the following alterations of the ratio of the two metals decreed by the Spanish Government:

In 1537	it was fixed at		10·60 : 1
„ 1567 (under Philip II)	„	„	12·13 : 1
„ 1609	„	„	13·39 : 1
„ 1652	„	„	14·47 : 1
„ 1686	„	„	16·44 : 1
„ 1728	„	„	17·00 : 1

To these we may add the following:

In 1737	„	„	15·07 : 1
„ 1772	„	„	15·00 : 1
„ 1779	„	„	16·00 : 1

CHAPTER III

THE ORIGIN OF THE SPANISH-AMERICAN 'PESO'

THE monetary systems transplanted into America by the European conquerors were in general the same as those existing in Europe at that time; that is to say, the mother countries introduced into their colonies metallic currencies similar to those with which they themselves were familiar. Various circumstances, however, led to the adoption of certain special coins which became peculiar to America, this applying especially to the *peso*, which has served as the monetary unit of almost all of the South and Central American republics. The *peso* came into such general use throughout America, indeed, that at the time of the establishment of independence it was the accepted monetary unit, not only of the Spanish-American republics, but also of the United States and Canada. Thus the *peso* may properly be called the great progenitor of the American monetary systems.

The name *peso* (weight) by which this piece of money is designated may be traced back to the custom of using a specified weight of metal, precisely as if it were coined money, for the making of payments. 'Accustomed to the use of their money,

[1] ALVAREZ, *Valores aproximados de algunas monedas hispano-americanas* (Buenos Aires, 1917).

the Spaniards introduced into the colony the names, values, and subdivisions with which they were familiar; but as they did not have sufficient Spanish money, or any way of making it, they began by conducting their operations in bullion. Thus, instead of delivering a *castellano*, for example, they delivered the weight of metal contained in a *castellano*. This introduced the custom of accepting for a thing a certain precise weight of metal which the buyer had to offer; and in this way originated the word which still serves to designate the unit of our monetary system.' [1]

Analogous to this was the historical origin of the European coins called the *libra* (pound), *marco* (mark), *onza* (ounce), etc., all of which correspond to measures of weight possessing those names.

The *castellano* used in the early colonial period was a gold coin. According to Dr. Alvarez, the terms *peso oro* and *castellano* were synonymous. The *peso oro* was also, as we shall see in the following chapter, the first monetary unit used in Chile in the period of the conquest.

What was the weight and fineness of this *peso oro*?

According to a decree issued by Charles V in 1537, it was equivalent to 556 *maravedis* 22½ *quilates* fine. Since fifty of them had to be struck out of each *marco* of fine metal with its alloy, it follows that each *peso oro* of the kind called *castellanos* contained 4·6 grm. of gold 0·937 fine.

But besides this *peso oro* of 556 *maravedis* there was also, as stated by Father Rosales, a *peso oro* of 450 *maravedis*. The Peruvian writer, Alexander Garland, says in regard to this matter: 'This *peso*, the monetary value of which was 450 *maravedis*, was the one in use during the first few years of the conquest, and it is to this coin that the chroniclers and historians of that time refer.' [2] The same writer says that other types of the *peso oro* were also in use at that time, such as that of 14 *reales* and 14 *maravedis* or 490 *maravedis*.

But this *peso oro* was not the progenitor of the present

[1] Pablo Macedo, *Mexico*.

[2] Alexander Garland, *Los medios circulantes en el Perú* (Lima, 1908).

Spanish-American monetary unit. The latter, on the contrary, is descended from a silver coin that existed back in the days of Alphonso the Wise (1252–84) and was a multiple of the ancient Spanish *real*, which, as we saw in the preceding chapter, was a coin of the *talla* of 67 per *marco* (equivalent to 3·433 grm.). Since this silver *peso* contained 8 *reales*, according to the standards of weight and fineness employed in the time of Charles V, it follows that it must have contained 27·464 grm. of silver 0·9305 fine. This fineness, however, was several times modified. Reducing the value of this silver *peso* to *maravedis*, at the rate of 34 *maravedis* per *real*, we find that it was equivalent to 272 *maravedis*.

This was the silver coin which afterwards became known all over the world and came to represent the monetary unit of the majority of the states constituted in both North and South America. Other names were also given to it, such as *patacón*, *peso fuerte*, *peso duro*, *peso grueso*.

These silver *pesos* coined in America were not always of the same weight and fineness as was specified in the Spanish ordinances. According to a Bolivian writer, Casto Rojas, the first *peso* coined by the mint at Potosi (established in 1572), likewise called the *peso cruz* or *macuquina*, contained 28·5 grm. of metal 0·931 fine;[1] and the Mexican *pesos* had an inferior fineness.

[1] Casto Rojas, *Historia financiera de Bolivia* (La Paz, 1916). This fineness of 0·931 is probably the same as that of 0·9305 that existed in Spain in the time of Charles V.

The royal ordinance of June 9, 1728, says that the mints of the Indies 'failed to show careful observance of the weight and fineness of the silver coins', the coins struck in Mexico differing from those struck in Potosi. The fineness of the Mexican coins was probably 10 *dineros* and 22 *granos*, while that of the Potosi coins was probably 11 *dineros* or a little more.

According to a Spanish writer this coin was always made with the fineness of 10 *dineros* and 20 *granos*, which, in the decimal system, would be equivalent to 0·90277 of a grm. As regards its weight, on the other hand, the same writer gives it as 27·073 *granos*. It is to be noted that Señor Requeijo refers only to Mexico. Perez Requeijo, *Economía Monetaria* (Valladolid, 1911).

We see, accordingly, that the various *pesos* coined in the American mints did not always have the same weight and fineness. The first silver *pesos* coined in Chile, in conformity with the ordinance of 1728, contained, as we shall see in Chapter VI, 27·064 grm. of metal $\frac{11}{12}$ (0·916) fine.

To sum up, accordingly, we may say that in the early days of Spanish domination in America various *pesos* were in use, all of them containing a specified weight of fine metal. Of these various *pesos*, however, the one to be looked upon as the progenitor of the present Spanish-American monetary unit is the silver *peso* of 8 *reales*, which weighed approximately 27 grm.

Since the bimetallic system was in force at that time, it follows that a certain weight of gold corresponded to the value of this silver *peso* according to the legal ratio then existing between the two metals. On the basis of the ratio of 10·60 : 1 established by the decree of Charles V, the corresponding weight of fine gold was not quite 2·5 grm.

CHAPTER IV

THE CURRENCY OF THE COLONIAL PERIOD PRIOR TO THE ESTABLISHMENT OF THE MINT

The only coins that circulated in Chile in the first part of the colonial period were the few that were imported from Peru, which was the centre of the commercial relations of Spain with the western coast of South America, as well as the seat of the highest representative of the Spanish authority.

As the available quantity of metallic currency was very small, and as the country itself had produced gold from the earliest days of the conquest, it is not surprising that gold dust extracted from the local mines and placers was very commonly used as money. In 1551, however, the *cabildo* (corporation) of Santiago, in order to do away with certain abuses which unscrupulous merchants were practising at the expense of the Indians, and at the same time in order better to regulate the payment of the *quinto real* (royal fifth) which was levied upon the mines at that time in favour of the King of Spain, prohibited the use of gold dust as money and ordered that 'melted and stamped gold' be used in its place.[1] This led to the circu-

[1] B. Vicuña, *La edad del oro en Chile* (Santiago, 1881). In Peru, during the first few years of the conquest, this system of the circulation of the precious metals in stamped bars was also employed. It was established by an order issued by Charles V

lation of gold disks, called *barretones*, the weight and fineness of which was certified by the stamp they bore.

The first years of the colonial period of Chile were called the ' gold age ', not because they were, as Vicuña Mackenna says, ' the golden age whereof the poets sing,' but because of the gold extracted from the local mines, which were the colony's chief source of wealth at that time. Inasmuch as gold was found in the native state, its exploitation was simply a question of extracting the pure metal from the mines and placers by means of the manual labour of the Indians. Silver was not yet exploited for the reason that it was not found in the native state, but only in combination with other substances, so that its extraction required technical processes which the country could not provide at that time.

Despite the more or less extensive use of gold dust and gold disks, however, the Spanish coins appear as the current circulating media, that is, as the standard measures of value, from the very first years.[1] The gold *peso* was the principal monetary unit in the early days of the conquest and colonial period.

What was the value of this gold *peso* ?

J. T. Medina reproduces a letter which a certain Señor Morales de Albornos addressed to the King of Spain on February 20, 1585, reading in part as follows: ' Your Majesty was pleased to order that the value of the gold should be reckoned in *maravedis* in this Kingdom, and that the value of each *peso* 22½ *quilates* fine should be 556 *maravedis*.' This was actually the value given to the gold *peso* by the ordinances in force at that time, the *peso* referred to having contained, as set forth in the preceding chapter, 4·6 grm. of gold 0·937 fine. Likewise in use was the gold *peso* of 450 *maravedis*; and as there were 34 *maravedis* in each *real*, it follows that each *peso* of 450 *maravedis* was equivalent in value to 13 *reales* and 8 *maravedis*.

in 1537, providing that ' gold or silver which is melted shall be stamped on the disk or bar in such a way as to indicate its fineness and shall circulate and pass current for that price '. Alexander Garland, *op. cit.*

[1] A few days after the foundation of Santiago, on March 7, 1541, Pedro de Valdivia conferred upon one Juan Pinuel the title of *Escribano de Cabildo* and assigned him a salary of 200 *pesos de oro* per annum. J. T. Medina, *Las Monedas Chilenas.*

The gold *castellano* used at the time of the conquest was not, as we have already observed, the progenitor of the present Spanish-American monetary unit.

We have already said that the only coins that circulated in Chile in the first part of the colonial period were the few that were imported from Peru, where a mint had been in existence since 1558 and especially since 1572, the year in which the famous Potosi mint was established. These coins, however, were constantly being re-exported in payment for various kinds of merchandise which the inhabitants of Chile could procure only from Peru. The result was that, after the first few years of the colonial period, the scarcity of metallic currency became so great that authority was solicited from the Spanish Government for the establishment of a mint in Santiago for the coinage of the gold which the country itself produced. Numerous documents reproduced by J. T. Medina bear witness to the complaints that were raised regarding the scarcity of circulating media and the consequent desire of the people to establish a mint of their own. Not until the year 1743, however, was this desire heeded by the Spanish Government, which turned a deaf ear to the clamours that emanated from Chile during the first two centuries of its colonial existence. The viceroyalty of Lima was also opposed, in line with its general policy of absorption, to the aspirations of the people of Chile to establish a mint of their own.

What politico-economic measures did the authorities of Chile propose to adopt for the purpose of putting an end to the scarcity of circulating media ?

In the first place, they solicited authority to coin money in the colony itself, that is, to establish a mint in Santiago. This seemed like a perfectly fair request, and it would undoubtedly have been the most advantageous way of utilizing the precious metals found native in the country.

In order to prevent the exportation of coins it was likewise proposed, in 1602, ' that they be made with more alloy than those made in Spain, which will be easily and cheaply done in view of the large amount of copper existing in the said Kingdom ;

or else that Your Majesty be pleased to order that the *escudos* circulating in Chile be worth somewhat more than those circulating in Spain, because nobody procures them in the Kingdom without suffering much loss.' [1]

In 1624 the *Cabildo* of Santiago, in order to put an end to the scarcity of circulating media and raise the country from its general economic prostration, resolved to appeal to the King and propose that he ' be pleased to increase the value of each *patacón* in this Kingdom by one or two *reales*, and elsewhere to maintain it at its present value ; and also [to order] that he who offers merchandise shall accept merchandise instead of the said silver, as is done in Sevilla and other places to which the right has been conceded '.[2] On the one hand, therefore, it was requested that the legal value of the money in circulation be increased, and, on the other hand, it was proposed that the exportation of money be prohibited.

As regards the request that there be adopted in Chile the same measure of prohibiting the exportation of money that had been adopted in Sevilla, the comparison was very candid, since the Spanish policy at that time was in large measure, in accord with the prevailing mercantile ideas, that of drawing as much gold as possible from the American colonies. Thus the comparison between Sevilla and Santiago was in reality not applicable. The merchants and authorities of Peru were endeavouring to exploit the commerce of Chile in their favour, while the Spanish Government, on its part, was endeavouring to direct all of the American gold and silver toward Spain.

The object of the other award so much desired, namely, that of increasing the legal value of the money circulating in Chile, was undoubtedly to establish a cheaper circulating medium, that is, one which it would cost less to produce, as is the case with subsidiary or ' token ' coins and still more with paper currency.

In the colonies of the Rio de la Plata the scarcity of money was so great in the sixteenth and seventeenth centuries that

[1] J. T. Medina, *Las Monedas Chilenas. Memorial presentado al rey*
[2] *Ibid.*

certain products or articles of merchandise, such as cotton cloth, *yerba-maté* of Paraguay, etc., were used as money. These colonies, unlike Chile, did not produce the precious metals and consequently had no reason for soliciting the establishment of a mint. In 1618 King Philip II declared, in view of the great scarcity of circulating money, that for the payment of taxes and tributes the media current in the colonies of the Rio de la Plata (*fanegas* of wheat, *arrobas* of cotton, etc.) should be accepted as money, and that 'the amount of them rated as 1 *peso* shall be worth 6 *reales* of silver at fair and common estimation'. This was equivalent to declaring that the silver *peso* should be worth 6 *reales* instead of 8 *reales*, or that a silver *peso* of 6 *reales* should be worth as much as the silver *peso* of 8 *reales* had been worth. This *peso* of 6 *reales* was the one called the *peso hueco* (hollow *peso*).[1]

It will be seen, therefore, that the demands of Chile to increase the legal value of money had their precedent in the Argentine Republic.

In 1647 the *Cabildo* of Santiago, owing to the very critical situation in which the city was left by the earthquake that occurred in May of that year, once more solicited the establishment of a mint; and it was further insisted that the money circulating in Chile be given a higher value than it had elsewhere, that is, that the *peso* be worth one or two *reales* more in Chile.

In 1668 the *Cabildo* again appealed to the King of Spain, stating: 'We have considered that Your Majesty, owing to the fact that the quantity of money which enters this Kingdom is very small, and that that which does enter sooner or later goes out again, leaving us in the greatest need, will be pleased to order that the *real de a ocho*, which is worth only eight *reales*, be worth sixteen *reales* in this Kingdom.'

If the expedient of paper money had been known in the Spanish colonies at that time, when these scarcities of circulating media caused so much trouble, it would probably have been resorted to, because the measure solicited by the *Cabildo* was

[1] Ricardo Levene, *La Moneda Colonial del Plata* (Buenos Aires, 1916).

a step toward the adoption of a currency which was to have a legal value greater than its intrinsic value. In 1685 there was a great scarcity of money in the French colony of Canada, and, in order to remedy the evil, recourse was had to the issue of certificates which were of the nature of a genuine paper currency. Shortly afterwards, moreover, the English colony of Massachusetts initiated a *régime* of paper currency for the same reason. Despite the opposition of the English mother country, moreover, almost all of the other colonies followed the example of Massachusetts, with the result that inconvertible notes soon suffered a great depreciation.[1] In the colonial period in the United States there developed a veritable paper-money mania. In Chile, where this expedient was unknown, the persons who favoured giving the metallic currency a legal value greater than its intrinsic value took the place of the *papeleros* or partizans of paper money.

CHAPTER V

THE ESTABLISHMENT OF THE MINT AND ITS RESULTS

In 1743 the King of Spain conceded to a wealthy resident of Santiago, Señor don Francisco Garcia de Huidobro, the right to establish a mint, at his own expense, in Santiago. Señor Huidobro, who crossed the ocean especially to obtain this concession, brought back with him the utensils and operators necessary for the accomplishment of his purpose; but despite the great efforts he put forth he was unable to commence operations until 1749.

The mint was thus established as a private enterprise under the proprietorship and management of Señor Huidobro himself; and it continued to be operated as such until 1770, when the Spanish Government ordered its incorporation with the Royal Crown. The amount of gold coined during the period in which

[1] G. Subercaseaux, *El Papel Moneda* (Santiago, 1912).

Señor Huidobro himself was in charge of the mint was as follows :

Year	Marcos	Onzas	Ochavas	Year	Marcos	Onzas	Ochavas
1749	867	7	..	1760	3,455	1	3
1750	2,939	..	4	1761	3,724	3	..
1751	3,280	6	4	1762	4,845	..	6
1752	2,733	6	4	1763	4,291	7	5
1753	3,526	4	..	1764	4,715	4	2
1754	2,346	2	7	1765	3,937	5	3
1755	2,936	1	3	1766	3,975	5	5
1756	3,527	3	..	1767	3,844	..	..
1757	3,620	7	4	1768	3,261	6	..
1758	3,334	3	4	1769	3,612	3	1
1759	4,409	3	5	1770	4,149	2	2

As regards silver coins, it is stated in the report submitted by the auditor of the mint to the President of Chile on April 17, 1771, that very few of them were struck. Indeed, the fact is, that the mint manufactured gold coins almost exclusively.[1] It remitted punctually the seigniorage payable to the King of Spain and at the same time yielded a good profit in favour of its owner and manager.[2]

The provisions of the royal charter authorizing the establishment of the mint prohibited the exportation of gold in bars or disks and expressly stipulated that the mint was to coin all the gold which the country produced ; also that any gold which it was attempted to export would be confiscated, so that nobody should use the pretext of wanting it for coinage in other mints established in the Indies. Certain merchants who were deriving

[1] In 1545 the famous silver mines of Potosi were discovered in Bolivia, and they soon began to produce enormous quantities of the white metal. In 1572 there was established the Potosi mint, which flooded America with its silver coins, the latter flowing into Chile, as well as into the other American possessions, in exchange for land products. In this way Chile supplied itself with the silver currency which it needed in those times when it produced only gold.

[2] According to the official report sent to the King of Spain by the superintendent and treasurer of the mint, Señor Huidobro himself, on April 20, 1754, in the four years of its existence the mint had coined 3,109 *marcos*, and 5½ *onzas* of gold per annum ; and of this 6,219 *pesos* and 3 *reales* per annum has been paid to the Crown as seigniorage, leaving a profit for the mint of 14,285 *pesos* per annum, from which it was necessary to deduct the salaries of the employés and other running expenses. J. T. Medina, *Las Monedas Chilenas*, Documento XX. Since 136 *pesos* has to be struck out of each *marco* of gold, it follows that the total amount of money coined in each of the four years was 422,824 *pesos*.

large profits from the purchase and exportation of gold for their own accounts felt that this was prejudicial to their interests and accordingly instituted proceedings against Señor Huidobro, doing so with the object of having the law against the exportation of uncoined metal repealed.[1] 'In this way a heated controversy arose between the advocates of the maintenance of the mint and the merchants who were seeking its ruin, or rather, the ruin of Señor Huidobro—a controversy wherein it was easy to see from the start that the general public had to place itself on whichever side its true interests seemed best represented.'

In a report which he sent His Majesty on February 15, 1767, the President of Chile, Señor don Antonio Guill y Gonzaga, expressed himself in regard to these complaints as follows: 'The said mint is vivifying the kingdom. Its manager is proceeding with the greatest possible care and legality, and in no manner whatsoever is he injuring the commerce of the vicinity in the exercise of the right of buying gold. On the contrary, the mint is greatly benefiting commerce, while at the same time it is affording much relief and encouragement to the miners, not only for the exploitation of old mines, but also for the discovery and development of new mines, because, knowing that they can sell their metal at the legal price of specie, they are no longer constrained to dispose of it at the low prices which the few dealers formerly compelled them to accept.'[2]

Nevertheless the Spanish Government decided to assume charge of the Santiago mint, and by a decree of August 8, 1770, ordered its incorporation with the Royal Crown. Until then, as stated above, it had been operated as a private establishment under the management and proprietorship of Señor Huidobro himself, but subject to the royal orders and instructions governing the coinage of money. From that time to the present it has been operated under the direct supervision of the state.

During the first few years in which the mint was operated for the account of the Spanish Crown it did not prosper very

[1] J. T. Medina, *Las Monedas Chilenas*, Documento XXVI. [2] *Ibid.*

well. Owing to the penurious condition of the region in which it was located, as well as to the lack of machinery or tools, it could not function properly, while at the same time the cost of coinage was very high.[1]

The following tables[2] show the quantity of gold and silver coined in the mint from 1772 to 1809:

GOLD

Name of coins	No. of coins	No. of *pesos*
Doblones de a 8 *escudos*	1,538,217	24,531,920
„ „ 4 „	74,455	595,640
„ „ 2 „	123,360	493,440
„ „ 1 „	238,926	477,852
Total	1,974,958	26,098,852

SILVER

Name of coins	No. of coins	No. of *pesos*
Reales de a 8	4,744,742	4,744,742
„ „ 4	548,135	274,067
„ „ 2	1,459,055	364,764
„ „ 1	1,760,152	220,019
„ „ ½	3,059,016	191,188
„ „ ¼	1,981,880	61,934
Total	13,552,980	5,856,714

After the year 1770, that is, after the Royal Crown had assumed charge of the mint, the production of silver increased and acquired great importance in Chile. Rich mines were discovered and developed, and one of the founders of the silver mining industry, in 1780, was the Frenchman, Captain Francisco Suber Caseaux, great-grandfather of the author of this book.[3] From that time on the coinage of silver at the mint had an ever-increasing importance.

[1] Report to the Superintendent of the Mint, May 5, 1778.
[2] *Anuario estadístico de la República de Chile*, 1910, vol. III.
[3] B. VICUÑA, *El libro de la plata* (Santiago, 1882).

CHAPTER VI

THE WEIGHT, FINENESS AND EXCHANGE RATIO OF THE COINS STRUCK AT THE MINT

In the manufacture of coins the mint adhered, as we have already said, to the provisions of the Spanish pragmatics and ordinances regulating the weight and fineness, as also the tolerance in the weight and fineness, of each coin. Inasmuch as the bimetallic system was in force, the pragmatics and ordinances, that is to say—to use modern administrative language—the decrees and laws of the state, also established the legal ratio between gold and silver. Furthermore, these laws made careful provision for everything relating to the stamp or external aspect of the coins, which, it was stipulated, were to bear the bust of the King and various inscriptions which for us, from the monetary-economic standpoint, are of little or no interest. We leave these matters to the numismatists.

The ordinance of June 9, 1728, established the fineness, weight, stamp, and other details relating to the coins manufactured at the mint at the time of its establishment by Señor don Francisco Garcia de Huidobro. The question is, then, What was the weight and fineness of the gold and silver coins struck in conformity with the provisions of this ordinance ?

The royal pragmatics and ordinances, as well as all the documents of that period, refer to the weight and fineness of the gold and silver coins in the terms corresponding to the ancient system of weights and measures, among which appear the *marco*, *castellano*, *onza*, *ochava*, *grano*, *maravedi*, etc. To employ these terms now, however, would be like writing in hieroglyphics, so that it is necessary to reduce the ancient measures to the modern measures in such a way that they can be understood by anybody with the help of an arithmetical table. The task is by no means a simple one, since some of the measures have varied in the course of time. Furthermore, there were certain differences in the measures used, according as they

were applied to gold or to silver.[1] Accordingly, in order that the reader may have a correct understanding of the weights, finenesses, and ratios established by the pragmatics and ordinances referred to, we have undertaken to reduce them to the modern decimal system. We attach special importance to this work, moreover, for the reason that there does not exist—so far as we know, at least—any work which contains this information in complete and satisfactory form.[2]

According to the aforesaid ordinance of June 9, 1728, the most valuable gold piece coined was the *onza* or *doblón de ocho escudos*. After it, came the *media-onza* or *medio-doblón*, and there were also the gold *escudos*, equal to $\frac{1}{8}$ of the *doblón* or *onza*. The fineness of the gold coins was 22 *quilates* (carats), which is equivalent to $\frac{11}{12}$ or 0·916 of a grm.

The weight of the gold *onza* or *doblón de ocho escudos* was 27·064 *gramos* (grm.), since each *marco* of gold 22 *quilates* fine was to produce $8\frac{1}{2}$ of them. The weight of the gold *peso* was $\frac{1}{16}$ of that of the gold *onza* or *doblón*. A *marco* of gold 22 *quilates* fine was to make 136 *pesos*, or 68 *escudos* of 2 *pesos* each. It follows, therefore, that each *peso* contained 1·6915 grm. of gold 22 *quilates* ($\frac{11}{12}$) fine, or 1·55 grm. of pure gold.

The principal silver coin was the *peso* or *real de a ocho*; and there were also *reales de a cuatro*, *reales de a dos*, *reales de a uno*, *medios-reales*, and *cuartos-reales*. The fineness of these coins, according to the ordinance referred to, was *de once dineros justos* (exactly 11 *dineros*), which was equivalent to $\frac{11}{12}$ or 0·916 of a grm.

As regards their weight, the same ordinance provided that a *marco* of silver $\frac{11}{12}$ fine was to produce $8\frac{1}{2}$ *pesos* of the kind called *reales de a dos*. It follows, therefore, that each silver *real* weighed 3·383 grm., and that each *peso* of eight *reales*

[1] A *tomín* of gold did not weigh as much as a *tomín* of silver. Dr. JUAN ALVAREZ, *Valores aproximados de algunas monedas hispano-americanas* (Buenos Aires, 1917). The word *grano* likewise appears with various accepted meanings, as does also the word *maravedí*.

[2] Dr. JUAN ALVAREZ in his interesting study (*op. cit.*) refers the value to the present-day coins of the Argentine Republic and not to *gramos* (grams) of gold and silver, as seemed to me more expedient.

contained 27·064 grm. of silver of the said fineness; that is to say, they both contained 24·8 grm. of pure silver.

As regards the ratio between gold and silver, according to this same ordinance of June 9, 1728, the *peso grueso escudo de plata*, that is, the silver *peso* of 27·064 grm., was equivalent to 18 *reales* and 28 *maravedis* of alloy; and since each of these *reales* was equal to 34 *maravedis*, it follows that each silver *peso* was worth 640 *maravedis*. Each gold *onza* or *doblón*, which also weighed 27·064 grm., as we have seen, was therefore worth 301 *reales* and 6 *maravedis*, or 10,240 *maravedis*. Thus:

1 silver *peso*=27·064 grm.=640 *maravedis*
1 gold *onza* or *doblón*=27·064 grm.=10,240 *maravedis*.

The ratio between gold and silver was accordingly:

10,240 : 640=16 : 1

In the European market the ratio between gold and silver in the year 1750 (the year in which the coining of money began in the Santiago mint) was 14·75 : 1, so that under normal conditions, since silver was worth more in Europe than in Chile, the silver coins put into circulation in Chile would have been exported. At that time, however, the commercial freedom of today did not exist, and the transportation of merchandise in general, and of the precious metals in particular, was subject to many difficulties and restrictions. This accounts for the fact that the ratio between gold and silver differed in the European markets from what it was in the American markets. Generally speaking, it was more favourable to gold in America than it was in Europe, perhaps for the reason that gold was more easily transported and stored—a very important consideration in those days of transportation difficulties and general insecurity. Furthermore, the great production of silver in Potosi and Mexico brought it about that silver in America, and even in Spain, was sometimes of less value than gold in relation to the European market rates. Chile's commerce with Spain regularly served as a sort of funnel through which flowed the current of gold and silver which was exported from America.[1]

[1] Certain local differences also used to occur between the relative value of gold and silver in the various American markets. In a report dated December 26, 1795,

In order to prevent the exportation of silver coins, which was inevitable as long as the Spanish legal ratio remained 16 : 1 and the European market ratio continued to fluctuate around 15 : 1, King Philip was obliged to modify the established legal ratio by arbitrarily increasing the value of the silver coins in circulation. In Spain, owing to the proximity of the European markets, it was undoubtedly more difficult to maintain a legal ratio which was so different from the market ratio.

A royal pragmatic of May 16, 1737, provided that 'the *peso grueso escudo de plata*, which hitherto has been worth 18 *reales* and 28 *maravedis* of alloy, shall henceforth be worth and pass current for 20 *reales* of 34 *maravedis* each'.[1] This pragmatic modified neither the weight nor the fineness of the gold and silver coins. It did, however, modify the value-relation or ratio of the two metals, since, according to the provision just referred to, the silver *peso* came to be worth 20 *reales* of 34 *maravedis* each, or 680 *maravedis*, having previously been worth, as we have seen, only 640 *maravedis*. Thus the ratio was :

1 silver *peso* = 680 *maravedis*
1 gold *onza* = 10,240 ,,
10,240 : 680 = 15·07 : 1

Moreover, the pragmatic further provided that 'since the present pragmatic aims only to increase the value of the silver coins, in order to make it proportionate to that of the gold coins, I order that the latter shall continue to circulate with the value they have had up to the present time; but with the distinction that the *doblón de a ocho*, which is worth sixteen *pesos fuertes*, shall be worth only the amount or number of *pesos* which, with the new increase, are needed to adjust the 300 *reales* and 40 *maravedis* of alloy to their value (10,240 *maravedis*); and in this sense it shall have the value of 15 *pesos* and 40 *maravedis*'.

and published in Buenos Aires, by R. LEVENE (*loc. cit.*, p. 76), we read : 'There is to be noted a considerable variation in the value of gold; it goes up when gold currency is scarce and in demand, and goes down when it is abundant and easy to procure. In this city there is continually to be observed a flux and reflux, an abundance and shortage, of gold coins.'

[1] *Novísima Recopilación*, vol. IX, title XVII.

Thus the pragmatic of 1737 did not modify either the weight or the fineness established by the ordinance of 1728, but merely changed the ratio between gold and silver. In one way, as a matter of fact, the change was for the worse rather than for the better, since before the pragmatic of 1737 the value of the gold *onza* or *doblón de ocho escudos* had been exactly 16 *pesos*, while afterwards it came to be worth only 15 *pesos* and 40 *maravedis*—obviously a more difficult relation to reckon with.

It seems that in Chile and other parts of America, however, the custom was maintained of giving the gold *onza* or *doblón de ocho escudos* the value of 16 *pesos*. The royal ordinances of August 1, 1750, permitted this ratio of 16 : 1 to be maintained in America ; and since the European market ratio was 14·75 : 1, there necessarily resulted a tendency toward the exportation of silver coins from the Chilean market.

When the mint first began operations considerable quantities of silver coins were exported from Chile ; and by 1765 the situation resulting from it had become alarming. This is evidenced by an incident referred to by J. T. Medina, who records that in January 1766, the General Procurator of the city called upon the President to prohibit the exportation of a quantity of full-weight coins that had been put aboard one of the ships anchored in the harbour of Valparaiso. This gives an idea of the serious situation in which the market was placed by the shortage of silver coins.[1]

On December 30, 1773, there was issued a royal order prohibiting the exportation of token coins from the dominions of America. If any silver subsidiary or token coins with a low fineness had been manufactured at that time, the system in fact would have been analogous to the single gold standard, although in theory the bimetallic or double-standard system was in force.

In Spain, meanwhile, the government found itself obliged to modify the monetary system in such a way as to make the established legal ratio of gold and silver conform more closely

[1] *Las Monedas Chilenas.*

to the actual market ratio. By a pragmatic of May 29, 1772, it ordered that the gold *onza* or *doblón de ocho escudos* should pass current for 300 *reales de vellón cavales*;[1] and as each *real* had 34 *maravedis*, it followed that the ratio was as follows:

1 silver *peso* = 680 *maravedis*
1 gold *onza* = 10,200 „
10,200 : 680 = 15 : 1

The object of this provision to reduce the gold *onza* or *doblón de ocho escudos* by 40 *maravedis* was, as stated in the pragmatic, to overcome the difficulties created, not only for commerce, but also for the entire community, by the division of the *doblón de ocho escudos* into ten quarters. The previous value of the *doblón de ocho escudos* having been 300 *reales* and 40 *maravedis*, the suppression of these 40 *maravedis* obviously simplified the relation. The reform had the further advantage of bringing the established legal ratio between gold and silver more into accord with the existing market ratio, which was around 14·75 : 1.

Thus the pragmatic of 1773, like the previous one of 1737, did not modify either the weight or the fineness of the coins. The only modifications it introduced, apart from those relating to the ratio between gold and silver, had to do with the stamp or external aspects of the coins.

By a royal decree of July 15, 1779,[2] the value of the *doblón de ocho escudos*, which had been fixed at 15 *pesos* of 20 *reales* and 40 *maravedis* by the pragmatic of May 16, 1737, was re-established at 16 *pesos fuertes cavales*, as provided by the ordinance of 1728. In reference to this provision the decree in question says: 'In this way the proper ratio between the two coins is assured, the ratio that has always been observed in my dominions in America, where there is rightly given to the *doblón de a ocho* the value of sixteen *pesos fuertes*, in conformity with the royal ordinances of August 1, 1750.' On this date, accordingly, there was adopted in Spain the same ratio of 16 : 1

[1] *Novísima Recopilación*, vol. IX, title XVII. [2] *Ibid.*

that had existed in Chile since 1750, the year in which the mint began its operations.

Worthy of note is the premium on gold that was established in these American colonies at the end of the eighteenth century. In the European market the ratio between gold and silver increased from 14·96 : 1 in 1786, to 15·68 : 1 in 1800, and to 15·77 : 1 in 1810. In America the relative value of gold was still higher, especially in the regions inundated by the extraordinary influx of silver from Mexico. At the end of the colonial period in Chile the gold *onza* was commanding a premium of 8 or 9 per cent.; and as the legal ratio was 16 : 1, it follows that the market ratio was more than 17 : 1. In Buenos Aires and Potosi the same thing happened. In explanation of this phenomenon Ricardo Levene says :

> The preference and demand of the Crown for gold were such that in 1791 it was decreed that the salaries of all classes of employés, as well as all the charges upon the revenues of these dominions, were to be paid in silver coin, with the further stipulation that the proceeds from all the products were to be sent to Spain in *doblones*. This led to an extraordinary appreciation of gold coins, giving rise to a genuine speculation in them and causing marked fluctuations in their value. These fluctuations reacted upon the silver coins, affecting their relative value, and initiated a period of general uncertainty. At that time it was explicitly stated that 'the merchant who brings gold bullion to the mint to have it coined into *doblons* believes himself legally authorized to lay down the law to those who solicit it'. The gold coins were commanding a premium of 8 per cent., in conformity with the decree of Vertiz.[1]

[1] *La moneda colonial del Plata* (Buenos Aires, 1916).

CHAPTER VII

THE PURCHASING POWER OF MONEY AS REFLECTED IN THE GENERAL LEVEL OF PRICES AT THE CLOSE OF THE EIGHTEENTH CENTURY

The value of money is reflected in its purchasing power; and this power, in turn, is reflected in the general level of prices. The metallic currency in circulation in Chile in the last part of the eighteenth century was much more valuable than that of the present time, not only because it contained a larger amount of fine metal, but also because its purchasing power was greater. In other words, we may say that even if the gold coins of today contained an amount of fine metal equal to the amount contained in the gold coins of that time, the value of the present currency would still be much less than that of the old currency.

In the second half of the eighteenth century an income of 250 *pesos* a month was looked upon as considerable. Evidence of this is furnished by the fact that the superintendent of the mint, a high official of the kingdom, received a salary of only 3,000 *pesos* per annum; the treasurer received 2,050 *pesos*; the chief melter 1,000 *pesos*; the auditor 200 *pesos*; the chief porter 200 *pesos*; and the servant 90 *pesos*. These salaries, moreover, must have been high rather than low, since more than fifty years later, when the independence of the Republic was declared, they were maintained at the same level.

As regards the wages of working men, throughout almost the entire colonial period there did not exist the system of freedom of labour and freedom of contract that exists today. The Indian was subject to the Spaniard and was obliged to work for him under very severe conditions. It was a *régime* of *commanderies*, a form of servitude or slavery to which the natives were condemned in favour of the Spaniards. According to President O'Higgins (1730–1801), this same servile condition of the Indians still existed in 1789; and he designates it as slavery.[1] A royal charter of June 10, 1791, ordered the incorporation of all the commanderies in Chile with the Spanish Crown. At the close of the eighteenth century the free labouring

[1] *Escritos de Don Manuel de Salas*, vol. I, p. 151.

class had already undergone some development, to be sure, but the majority of the farm workers still laboured in the capacity of tenants, receiving practically no pay for their work and subsisting largely on the crops and stock which they were allowed to keep for themselves.

As regards the cost of necessary articles of consumption, the following prices are given by Señor don Manuel de Salas in the report which he submitted to the Spanish Government on January 10, 1796:

1 *fanega* of wheat	. . . .	12	*reales*
1 „ „ barley	. . . .	4	„
1 „ „ kidney beans	. .	14	„
1 *arroba* „ sugar	. . . .	4	*pesos*
1 „ „ rice	. . . .	20	*reales*
1 *vara* „ sheeting	. . .	3	„
1 „ „ Quito cloth	. . .	20	„
1 „ „ baize	. . . .	3	„
1 live bovine animal	. . .	10	*pesos*
1 ewe	. . . . .	3½	*reales*

Reducing the *fanega* of wheat and barley to kilograms at the rate of 71·30 kg. per *fanega*, the *fanega* of kidney beans at the rate of 92 kg. per *fanega*, and the *arroba* of sugar and rice at the rate of 11·5 kg. per *arroba*, we have prepared the following table indicating the comparative prices of 1796, 1913, and 1919:

Prices of Commodities in Paper Pesos

Commodity	1796	1913	1919
100 kg. wheat . .	2·10	20·00	23·00
„ barley .	0·70	18·00	27·00
„ kidney beans	1·91	28·00	52·00
„ sugar . .	34·78	45·00[1]	90·00
„ rice . .	21·70	28·00	100·00
1 yard sheeting .	0·35	0·49	1·40
„ baize . .	0·375	0·75	1·50
„ woollen cloth	2·50	5·85	13·40
1 bovine animal .	10·00	190·00[2]	220·00
1 ewe . . .	0·437	18·00	25·00

[1] Granulated sugar worth 2·90 *pesos* per *arroba* (an *arroba*=25 lbs.).

[2] As regards the price of bovine animals, there is at present a wide variation, according to age, sex, and size. The price per kilogram would have to be established; but indicated prices of the eighteenth century are per head, so that we have to make them per head for 1913 and 1919 likewise. It is to be noted that the price of 10 *pesos* which Señor Salas gives for 1796 is a maximum

The year 1913 is taken as a normal year before the war, which, as is well known, caused great disruptions in the domain of prices.

Resorting to the use of index numbers, on the basis of the above figures we have prepared the following table:

PRICES OF COMMODITIES IN PAPER PESOS: RELATIVE INCREASE

Commodity	1796	1913	1919
Wheat	100	952	1,571
Barley	100	2,570	3,857
Kidney beans	100	1,465	2,722
Sugar	100	129	258
Rice	100	128	460
Sheeting	100	140	400
Baize	100	200	400
Woollen cloth	100	234	536
Bovine animal	100	1,900	2,200
Ewe	100	4,118	5,720
Total	1,000	11,836	18,124
Average	100	1,184	1,812

According to this table, the fluctuations of the purchasing power of the Chilean monetary unit, the *peso*, were proportional to the numbers 100, 1,184, and 1,812 in the period of time indicated. It is clear, however, that these figures furnish only a defective indication of the fluctuations of the value of the *peso*, since the number of products taken into account is relatively small. Moreover, this method of the index numbers has the disadvantage of attributing equal importance to each one of the prices given. It is true that the articles considered are all of equal importance from the standpoint of the necessities of popular consumption, since they are all used for food and clothing; but it must be borne in mind that the *peso* constituting the monetary unit of 1796 contained 1·55 grm. of fine gold, whereas that of 1913, the exchange value of which was around 10*d.*, contained only 0·3048 grm. of fine gold.[1]

Taking into account the gold content of the *peso*, therefore, we

[1] At the present moment (August 1919) English money is somewhat depreciated in relation to gold; but the rate of exchange in Chile is a little higher than 10*d.*

have prepared the following table indicating the values of the same articles, not in *pesos*, but in grams of fine gold:

PRICES OF COMMODITIES IN GOLD GRAMS

Commodity	1796	1913	1919
100 kg. wheat . .	3·25	6·10	9·14
,, barley . .	2·96	5·49	8·23
,, kidney beans .	2·95	8·53	15·85
,, sugar . .	53·81	13·72	27·43
,, rice . .	33·63	8·53	30·48
1 yard sheeting .	0·54	0·15	0·43
,, baize . .	0·58	0·23	0·46
,, woollen cloth .	3·87	1·78	4·08
1 bovine animal .	15·50	57·91	67·06
1 ewe . . .	0·68	5·49	7·62

Resorting again to the index numbers, on the basis of the above values, we have prepared the following table:

PRICES OF COMMODITIES IN GOLD GRAMS: RELATIVE INCREASE

Commodity	1796	1913	1919
Wheat . .	100	187	281
Barley . .	100	185	278
Kidney beans .	100	288	535
Sugar . .	100	25	50
Rice . .	100	25	90
Sheeting. .	100	24	42
Baize . .	100	39	79
Woollen cloth .	100	45	105
Bovine animal.	100	373	432
Ewe . .	100	807	1,120
Total .	1,000	1,998	3,012
Average	100	200	301

Thus if we reduce the values or prices of the articles specified to a monetary unit containing a fixed amount of gold, we find that the fluctuations of the purchasing power of gold in Chile in the years 1796, 1913, and 1919 was proportional to the numbers 100, 200, and 301, respectively.

The decline in the value of money does not appear so great as might be expected, due in large measure to the influence of modern wholesale production, which has had the effect of considerably reducing the cost of manufactured articles such as woollen cloth, baize, etc. As will be seen, however, the value of foodstuffs has undergone a marked increase.

On the other hand, the rise of prices in gold has not been so great, because the fall in the gold value of the monetary unit, the *peso*, has had the effect of diminishing the gold value of certain products. The prices of certain articles do not rise in proportion to the fall of exchange, especially when they are not articles of exportation, or when they are articles of relatively little importance, as are many Chilean agricultural products. For this reason, if we take the gold value of these articles when the rate of exchange is very low, as it is today, we find that their prices are rather low. If we had taken the year 1918, when the rate of exchange rose to 17*d.* without bringing about a lowering of prices, due in large part to the influence of the war, the gold value of the agricultural products would have been found to be much higher, although their paper money value was lower than it is today.[1]

As regards the value of land, at the close of the eighteenth century, we may consider the *Hacienda de la Calera*, which was appraised in 1787. Altogether this property comprised 1,861¼ *cuadras*, whereof 1,200 *cuadras* were valued at '10 *pesos* each on account of being irrigated and of the first quality', and the remaining 674½ *cuadras* were valued at '8 *pesos* each on account

[1] If we take the prices of agricultural products prevailing in July 1918, when the rate of exchange was 17*d.*, and compare them with the prices prevailing in the same month of 1919, when the rate of exchange was 10*d.*, we obtain the following:

	1918	1919
100 kg. wheat . . .	29·00	33·00
,, barley . . .	16·00	27·00
,, kidney beans . .	38·00	52·00
1 kg. beef	1·18	1·48
,, pork	1·60	2·00

And if we reduce these prices to grams of gold at the rate of 0·5182 grm. for July 1918, and 0·3048 grm. for July 1919, we obtain the following:

100 kg. wheat . . .	15·00	9·14
,, barley . . .	8·34	8·23
,, kidney beans . .	19·70	15·85
1 kg. beef	0·61	0·45
,, pork	0·83	0·61

We do not have to resort again to the index numbers in order to see at once that if the prices in paper money were considerably higher in 1919 than they were in 1918, the prices in gold, on the other hand, were considerably higher in 1918 than they were in 1919.

of being hilly, even when it is possible to water all of them'. Today these same *cuadras* would be worth, at a low estimate, between 3,000 and 4,000 *pesos* each. The vineyards on this same property were valued at 3 *reales* for each vine, 'including their poles and trellises.' This was a rather high price; for supposing that there were 1,500 vines per *cuadra* (at that time they were planted much further apart than they are today), it would follow that the land cost approximately 562 *pesos* per *cuadra*. The famous *Hacienda de Bucalemu*, which belonged to the Jesuit Fathers, was purchased in 1778 for 120,125 *pesos*, 'with the declaration that the cattle and appurtenances, valued at 60,150 *pesos* and 4 *reales*, were for the highest bidder, and the lands and buildings, valued at 59,974 *pesos* and 4 *reales*, were for Don Pedro Fernandez Balmaceda.'[1] This *Hacienda de Bucalemu*, which today is divided into three parts, is now worth more than six million *pesos*. The large *Hacienda de la Compañía*, which likewise belonged to the Jesuit Fathers, in 1771 was sold at auction by Don Mateo de Toro Zambrano for 90,000 *pesos*, payable in nine years with 5 per cent. interest. At the present time this same property, having been divided into several parts, is worth many millions of *pesos*.

A patrimony of 20,000 *pesos* was looked upon as considerable in those days, since such a sum was sufficient for the purchase of a large estate. A dowry of 15,000 *pesos* was so large that only the great heirs could expect to receive such a sum,[2] whereas at the present time no dowry of less than 400,000 *pesos* is considered large.

As regards the price of urban properties, we may cite the house built by Toro Zambrano—a luxurious palace (still standing on Calle de la Merced) which in 1789 was appraised by the famous architect Toesca at 50,000 *pesos*. This was undoubtedly an extraordinary price at that time. Today this property, on account of its central location, would be worth approximately a million *pesos*.

[1] Domingo Amunátegui, *Mayorasgos y Títulos de Castilla*, vol. II, pp. 256, 287.
[2] *Ibid.*

CHAPTER VIII

THE REASON FOR THE NON-EXISTENCE OF BANKS IN THE COLONIAL PERIOD

The special institutions called banks developed very slowly in Europe during the Middle Ages. After the Bank of Venice, founded in the twelfth century, came the famous Bank of Amsterdam, founded in 1609. In England, apart from certain private persons who performed some of the services and functions of banks, the first bank was the Bank of England founded in the year 1694 with the object of providing funds for the government.

In Spain the first institution of this kind was the *Banco de San Carlos*, created by the government by royal charter of June 2, 1782.[1] Its principal object, like that of the Bank of England, was to provide the government with funds by use of the public credit. In reality, this may be looked upon as having been the principal object or motive behind the foundation of many of the great European national banks or banks of issue.

In colonial America the first banks were those of the English colonies. As far back as 1714 there was put forth a project for erecting a bank of credit in Boston, New England, founded on land security.[2] In 1741 began the so-called 'land banks', the principal object of which was to issue circulating notes on landed security. Later on there broke loose a veritable mania in favour of these banks, several of which were founded in the English colonies with more or less the same object. Their results, however, were disastrous, so that the government had to suppress them. 'The affairs of the Land Bank occupied the attention of the General Court for a quarter of a century, and the litigation growing out of its affairs was protracted till 1767 or later.'[3]

The first bank properly so called that was established in the

[1] Enrique Lisbona Fabrat, *Los bancos de emisión de Europa* (Madrid, 1896).

[2] Horace White, *Money and Banking*, 1st ed. (Boston, 1896), p. 248; 3d ed. (New York, 1908), p. 235.

[3] Horace White, *Money and Banking* (3d ed., New York, 1908).

United States was the Bank of North America, which was founded in Philadelphia in 1781 with the approval of the Continental Congress.[1]

In the Spanish American colonies there were no banks at that time, either for the issue of notes or for the receiving of deposits and the making of loans.

Although from the earliest colonial days the authorities of Chile clamoured for the establishment of a mint, never, so far as I know, did they petition the Spanish Crown for the establishment of a bank. And this was natural, since at that time banks were but little known in Europe and practically unknown in America. Nor was their establishment solicited even at the end of the eighteenth century, when they had become known in this part of the world. In the very interesting representations which the Director of the Royal Consulate of Santiago, Señor don Manuel de Salas, made to the Minister of Finance in 1796 regarding the status and needs of commerce, industry, and agriculture in Chile, nothing is said in regard to banks. At the end of the eighteenth and the beginning of the nineteenth century, however, the people of Chile began to acquire some knowledge of the purposes and functions of banks, due in part to the fact that some Chilean capitalists were sending their money abroad for deposit in the *Banco de San Carlos de España* and other Spanish banks.[2]

During the colonial period there were no banks in this part of America save the *Banco Real de San Carlos* in Potosi, which had a monopoly in the purchase and sale of gold and silver bullion for the account of the Spanish Crown, paying the miners officially established prices for it. 'Improperly called a bank, it was in reality nothing more than a depository. At first it was called the *Real Compañía* and not until August 8, 1779, was it incorporated with the Royal Crown under the name of *Banco Real de San Carlos*.'[3]

[1] J. T. Holdsworth, *Money and Banking* (New York, 1915).

[2] *Memoria presentada a la Casa Consular de Santiago* by Secretary Anselmo de la Cruz, January 11, 1811.

[3] Casto Rojas, *Historia Financiera de Bolivia*, p. 21.

In Mexico, according to Martinez Sobral, there was founded in the time of Charles III (1759–88) a bank intended to facilitate the mining industry. It had a capital of 5,000,000 *pesos*, and 'its operations consisted of advancing money to mine-owners, or of making loans on mines, and of the receipt of deposits at interest. The credits constituted in its favour enjoyed privileges.'[1] This bank lasted until the first years of the country's independence, but its results, according to the above-mentioned Martinez Sobral, were 'scarcely satisfactory'. The writer referred to does not give the date of its foundation, which is undoubtedly rather strange, since the *Banco de San Carlos de España* was not founded until the year 1780, and in Spanish America the only banks known were those for the purchase and sale of bullion. Otherwise, the fact that its results were not very satisfactory is not surprising, since, if the operations of a bank of credit were difficult under the conditions that prevailed at that time, far more difficult must have been those of a bank intended to facilitate the mining industry, a very delicate business in itself.

Thus the banking institutions of Chile do not date back to the colonial period, but only to the beginning of the period of independence.

CHAPTER IX

THE TRANSITION FROM THE CURRENCY OF THE COLONIAL PERIOD TO THAT OF THE INDEPENDENT REPUBLIC

When the independence of Chile was declared, in 1817, it happened there, as in almost all of the South American countries, that the monetary system of the colonial period was maintained. The new government merely replaced the image of the old sovereigns, the royal insignias, and the inscriptions stamped on the old coins with other images, insignias, and inscriptions appropriate to the incipient independence of the country. On June 9, 1817, the Supreme Director issued a decree providing

[1] Martinez Sobral, *Estudios elementales de Legislación Bancaria* (Mexico, 1911).

that the national silver currency should thereafter bear the stamp of the newly constituted government with the following inscriptions : *Libertad, Union y Fuerza* and *Chile Independiente.* 'He who in any way violates the new currency', the decree further provided, 'shall be punished as a traitor to the country.'

What happened in Chile in 1817 had also happened with remarkable uniformity in the other Spanish-American republics. Despite the slight development of credit at that time, the existing monetary system could not have been altered without prejudice to the contracts already in force. Furthermore, since prices, wages, and salaries in general, as well as charges for services, transportation, etc., were all based upon the existing currency, it was deemed expedient to maintain the metallic value of the old coins as it was and to change only their die or stamp. For this reason the new Spanish-American republics, without having to arrive at a general agreement among themselves, all proceeded along more or less the same course ; for we know that similar causes under similar conditions tend to produce similar results.

In the Argentine Republic, in the midst of the anarchy which characterized the struggle for liberty in 1813, the Constituent Assembly decreed that the coins struck in the Potosi mint should have the same weight and fineness as the old gold and silver coins of the reigns of Charles IV and Ferdinand VII, but that they should be differently stamped with the inscriptions *Unión y Libertad* and *Provincias del Rio de la Plata.* A few years later, likewise in the midst of continued anarchy, the *régime* of paper currency was initiated.[1]

In Peru, according to Alexander Garland, 'the few modifications decreed by the newly established government (1822) were confined to the substitution of the Peruvian arms for the bust of the Spanish monarch, and to the adoption of new inscriptions and symbols more appropriate to the new *régime.*'[2]

The first monetary law of independent Mexico was that of

[1] Emilio Hansen, *La Moneda Argentina* (Buenos Aires, 1916).

[2] Alexander Garland, *Los Medios circulantes usados en el Perú* (Lima, 1908).

August 1, 1823, which conserved the weight and fineness of the old Spanish coins and modified only their emblems.[1]

In the same way the *boliviano* of Bolivia, the *bolivar* of Venezuela, the *peso* of Uruguay, the *sucre* of Ecuador, the *peso* of Paraguay, etc., are descended from the ancient *peso* constituting the old Spanish-American monetary unit of the bimetallic system, which at the beginning of the period of independence was changed only with respect to its stamp or die.

The United States constitutes a notable exception to this rule, for on declaring its independence from England it established by resolution of Congress, in 1792, the so-called 'dollar', that is, the Spanish-American *peso* reclothed with the emblems and inscriptions appropriate to the new Anglo-Saxon republic, and abandoned the use of the English currency.[2] The reason for this apparent anomaly is easy to see. At that time the Spanish-American *peso* was circulating extensively in the Anglo-American states and represented the *de facto* money in which prices were quoted. Furthermore, this *peso* was better adapted to serve as the basis of a decimal monetary system of much simpler formation than the English system of pounds, shillings, and pence. Thus it was not a question of completely disrupting the existing *régime*, but merely of consolidating the use of a currency system with which the people were already more or less familiar. Furthermore, some of the states of the American Union had suffered the disastrous consequences of an almost total depreciation of their colonial paper currency, and this, coupled with the fact that the existing English monetary system was rapidly losing prestige, facilitated the adoption of the new *régime* based on the 'dollar' or *peso*, which had always circulated as a coin of intrinsic value.

Later on we also see a change in the monetary system of Peru, which in 1897 adopted the English 'pound sterling'. That this reform was effected without the disruptions that ordinarily

[1] MARTINEZ SOBRAL, *La Reforma monetaria de Mexico* (Mexico, 1909).

[2] The word 'dollar' is a corruption of the German *thaler*, a silver coin used in Bohemia in the sixteenth century. This same name was afterwards applied to the Spanish-American silver coin called the *peso*.

result from a change in a monetary system is also to be attributed to special circumstances. The old paper currency that had circulated in Peru had depreciated in value until it had become almost worthless, and in its place the circulation of the *sol* or *peso de plata* was established. The coinage of this Peruvian *sol* was free, but owing to the decline in the value of silver it could not satisfy the required conditions; and since English money was in very general use at that time in trade relations, it was ordered that the 'pound sterling' should be equivalent in value to 10 *soles*. The free coinage of the *sol* was suspended, and afterwards there was adopted the Peruvian gold coin copied from the English monetary unit, but without the corresponding shillings and pence so difficult to reckon in. It was necessary to do away with the old monetary system entirely, in order to facilitate the adoption of a foreign coin already extensively used in that part of the world.

CHAPTER X

THE MONETARY SITUATION OF CHILE DURING THE FIRST YEARS OF ITS INDEPENDENCE

The struggle against Spanish domination began prior to 1810 and did not end until 1818. When the new *régime* was inaugurated, the economic, political, social, and administrative situation was very irregular, the government departments being completely disorganized. Under these circumstances the country entered into a governmental *régime* for which it was not thoroughly prepared, and there necessarily ensued a period of anarchy in which it could not hope to establish a stable government or a definitive constitution. This state of affairs lasted until 1828, or rather until 1830, when the public order was definitively restored by the strong arm of Portales.

The mint, on its part, at the beginning of the *régime* of independence, found itself 'in the greatest decadence', as the Senate informed the superintendent of the mint in December

1818.[1] This, moreover, is clearly shown by the following table:

AMOUNT OF METAL COINED, 1810–50, AND VALUE IN PESOS

Year	Gold		Silver	
	No. of *marcos*	Value in *pesos*	No. of *marcos*	Value in *pesos*
1810	6,359	864,824	18,496	157,216
1811	5,230	711,280	13,177	112,004
1812	5,631	765,816	41,499	352,741·4
1813	4,624	628,864	58,865	508,852·4
1814	3,532	480,352	44,644	379,474
1815	4,778	649,808	48,421	411,578·4
1816	5,452	741,472	57,740	490,790
1817	505	68,680	53,043	450,865·4
1818	3,713	504,968	44,142	37,5207
1819	4,603	626,008	28,360	241,060
1820	4,290	583,440	13,963	118,685·4
1821	1,992	270,912	15,458	131,393
1822	3,873	526,728	18,014	153,119
1823	2,300	312,800	5,729	48,696·4
1824	1,388	188,768	1,789	15,206·4
1825	1,153	156,808	400	3,400
1826	1,294	175,984	719	6,111
1827	282	38,352	.....	.....
1828	566	76,976	.....	.....
1829	....	.....	.....	.....
1830	410	55,760	808	6,868
1831	205	27,880	6,087	51,739·4
1832	1,357	184,552	4,914	41,769
1833	3,009	409,224	10,848	92,208
1834	3,840	522,240	5,405	45,942·4
1835	3,482	473,552	632	7,732
1836	3,293	447,848	.....	.....
1837	2,073	281,928	924	7,854
1838	4,103	558,008	208	1,768
1839	3,362	457,232	24,152	205,302
1840	3,064	416,704	736	6,256
1841	3,150	428,400	229	1,718·2
1842	3,461	470,696	279	2,296·6
1843	3,332	453,152	12,832	123,187·1
1844	3,235	474,331·87	7,173	68,860·6
1845	2,522	369,788·25	19,359	157,046·3
1846	1,940	284,452·5	11,672	112,051·1
1847	2,296	336,944·25	5,844	56,102·3
1848	1,675	245,596·87	7,896	75,801·4
1849	6,244	915,526·5	13,693	131,452·6
1850	22,774	3,339,237·75	1,340	12,864

[1] *Sesiones de los Cuerpos Legislativos*, vol. II, p. 164.

The amount of gold coined in 1810 was not equalled again, as will be seen, until 1849. A considerable amount of silver was coined in the first years of the country's independence, but after 1822 it dwindled down to little or nothing. Although the law obligating the miners to sell their precious metals to the mint was in force during the first years of independence, the illegal traffic in them was so extensive that on many occasions there would seem to have been no law against it. In order to put a stop to it, the establishment of a 'bullion bank' in the town of Huasco was several times proposed; in other words, it was proposed to create an institution for the purchase of the precious metals in the immediate vicinity of the mines which produced them. In general, it may be said that the social-economic status of the republic in the first few years of its independence was deplorable, the lack of security, coupled with political and administrative disorganization in the years following the struggle for independence, having necessarily exerted a disastrous influence upon public law and order.

The falsification of the national currency introduced by the decree of Quintana of 1817, to which we have already referred, underwent an alarming development. In 1820 President O'Higgins, in order to put a stop to it, issued a decree authorizing 'all employés, merchants, and citizens to break and destroy whatever false money comes into their possession', and conceding other sanctions with the same end in view.[1] The measures proposed by President O'Higgins were copied from those adopted by the Spanish Government for the same purpose; and although in the decree referred to it was expressly stated that the evil also existed in the days of Spanish domination, it seems that at that time it was acquiring an extraordinary character. Apropos of this matter, and in reference to the decree of O'Higgins, J. T. Medina says: 'Inasmuch as this is the first time that we have had occasion to record such practices, we will say that in the colony they were rather uncommon—not, to be sure, because of any lack of desire on the part of the Spaniards to participate in an industry toward which they

[1] *Sesiones de los Cuerpos Legislativos*, vol. IV, p. 305.

have always shown themselves to be more or less inclined, but because of the extremely severe penalties which the laws of the country prescribed for those found guilty of the offence, as also because of the country's lack of means for conducting such operations.'

There was likewise circulating in great abundance at that time the 'clipped' currency called *macuquina*. This money in reality played the rôle of subsidiary currency, and, despite many protests, it remained in circulation for a long time; twenty years later, indeed, a large amount of it was still circulating and discharging the functions of subsidiary currency.

In 1818 the government decreed that the Treasury offices should receive gold at the rate of 17 *pesos* and 2 *reales* per ounce, its legal value having been 16 *pesos* per ounce since the days of Spanish domination.[1] The relative value of gold and silver was generally more favourable to gold in Chilean commercial relations than it was in European commercial relations, this permitting a ratio of 16 : 1 in Chile when the European market ratio was 15·5 : 1. But the situation in 1818 was undoubtedly extraordinary; probably gold was more appreciated in those times of great insecurity for the reason that it was easier to transport and, in particular, easier to conceal. As we noted in chapter VI, moreover, this premium in favour of gold existed at the close of the eighteenth century, that is, in the midst of the colonial period.

During the colonial *régime* various circumstances, such as the regulation of commerce, the restrictions placed upon the exportation of money and the monopoly of the state, whereby the producers of the precious metals were obligated to sell them to the mint, brought about a special situation in the markets

[1] I was unable to find the text of this decree, but reference is made to it in some of the *Sesiones de los Cuerpos Legislativos*. Twenty years afterwards, for example, the Minister of Finance, Señor Renjifo, defending the opportuneness of this decree, which had been objected to by Deputy Toro in the session of August 4, 1843, expressed himself as follows: 'Already in the days of Spanish domination the ounce of gold was commanding a premium of 8 or 9 per cent. over the 16 *pesos* corresponding to its legal value in Chile, and the decree which ordered that the Treasury Offices should receive it for the price of 17 *pesos* 2 *reales*, far from increasing its value, decreased it with respect to the current market rate.' *Sesiones de los Cuerpos Legislativos*, vol. XXXII.

of these colonies, a situation which accounted for the differences that existed in the relative value of gold and silver in this country and in Europe.

At the time of the declaration of independence the exportation of coins was permitted upon payment of an export tax, which was at first fixed at 9 per cent. and was afterwards reduced in order to prevent illegal exportation; but the exportation of bullion or uncoined metal was prohibited, although the prohibition was very commonly disregarded.

Despite the *régime* of free trade and free exportation of money, however, considerable differences now and then arose, owing to the slow means of transportation and communication that existed at that time, between the commercial quotations of the European markets and those of the small Chilean market. At that time there was no telegraph to communicate prices to merchants all over the world and enable them to take immediate advantage of different quotations in different markets in such a way as to bring about a certain levelling of prices. The case of 1818 was undoubtedly a notable example of this disparity between the gold and silver quotations of the Chilean market and those of the European markets.

The status of the Santiago mint, according to the report prepared by the superintendent himself on October 4, 1817, could not have been worse. There were no dies for the gold coins, for the reason that the government had not yet decided upon them. There was no work for the employés to do, and there was no melter and no stamper. 'Of the workmen, skilled and unskilled, some died and others retired for want of work.'

Preoccupied by the small quantity of metal that was being coined at the mint, despite the fact that the mines of the north were continuing to produce gold and silver in ample quantities, and attributing it to the great distance between Santiago and the mining region, the government resolved to establish a coinage plant in La Serena and to place it under the supervision of the superintendent of the Santiago mint. This establishment remained in operation only a short time, however, and turned out only a small quantity of money. In 1830 it was no longer functioning.

CHAPTER XI

THE FIRST MONETARY LAW APPROVED BY THE NATIONAL CONGRESS

The public order having been established on a solid basis, in 1830 the regular life of the republic began.

The first monetary law approved by the National Congress was passed on August 23, 1832, its sole article reading as follows: 'The mint shall buy gold and silver at the rate of eight *pesos* seventeen *maravedis* per *marco* of silver eleven *dineros* fine and one hundred thirty-six *pesos* per *marco* of gold twenty-two *quilates* fine.'[1] This law had no other object than that of fixing the conditions under which bullion was to be purchased for the manufacture of coins; and inasmuch as it does not refer to the value of the coins, it is of no importance from the economic monetary standpoint.

In 1834 the President of the republic submitted to the National Congress a bill providing for the introduction of a new die bearing the Chilean coat of arms. This bill did not modify the weight, fineness, or even the names of the coins in the slightest degree. Congress, however, deemed it expedient to amplify it somewhat, and, in accord with the President, it passed the law of October 24, 1834, the principal provisions of which were the following:

Article 1. There shall be four denominations of gold coins, called the *doblón*, the *medio-doblón*, the *cuarto-doblón*, and the *escudo*.

Art. 2. From the *marco* of gold there shall be struck eight and

[1] These prices paid for gold and silver by the mint were higher than those previously paid. In regard to this difference the Minister of Finance, Señor Renjifo, expressed himself as follows: 'The reason for this difference between the old price and the present price is still more obvious. At that time the sovereign exercised an exclusive monopoly with respect to the precious metals, whereas today, under the protection of our institutions, this traffic recognizes no restrictions. At that time the Government fixed the price of specie, whereas today, with freedom, it has acquired all the value it is worth.' 'At that time', continues the Minister, 'there happened with silver what is now happening with tobacco. This offers a simple explanation of a fact which is not surprising, however little thought is given to its origin and causes.' *Sesiones de los Cuerpos Legislativos*, vol. xxxii. p. 302.

one-half *doblones*, the specific weight of each one of which being thus reduced to seven and one-half *ochavas*, two and two-seventeenths *granos*, and that of the *medio-doblón*, *cuarto-doblón*, and *escudo* likewise reduced proportionately.

ART. 3. The gold coins shall be twenty-one *quilates* fine.

ART. 4. Each *doblón* shall have the value of sixteen *pesos*, each *medio-doblón* that of eight *pesos*, each *cuarto-doblón* that of four *pesos*, and each *escudo* that of two *pesos*.

ART. 6. There shall be six denominations of silver coins, called *reales de a ocho* or *pesos*, *reales de a cuatro*, *reales de a dos*, *reales*, *medios reales*, and *cuartillos*.

ART. 7. From the *marco* of silver there shall be struck eight and one-half *reales de a ocho* or *pesos*, each one of which shall consequently weigh seven and one-half *ochavas* two and two-seventeenths *granos*; and the other silver coins shall have weights proportionate to that of the *reales de a ocho* or *pesos*.

ART. 8. The silver coins shall be ten *dineros* twenty *granos* fine.

ART. 9. Each *real de a ocho* shall have the value of two hundred and seventy-two *maravedis*; and the other five denominations of silver coins designated in Article 6 shall have values proportionate to their weights.

ART. 11. Since the gold and silver coins established by the preceding articles are equal in weight and fineness to those hitherto in use in the Republic, they shall circulate and pass current with the same value.

ART. 12. There shall be two denominations of copper coins, called *centavos* and *medios-centavos*.

ART. 17. For the present these copper coins shall be put into circulation only up to the amount of thirty thousand *pesos*, one-half thereof in *centavos* and the other half in *medios-centavos*.

ART. 18. The President of the Republic is authorized to determine, if he deems it necessary, the amount which shall be legally receivable in the making of payments for the settlement of commercial obligations.

Our next step is to reduce the weights and finenesses of these coins to the decimal metric system.

The fineness of 21 *quilates* is equivalent to 0·8749. Since from each *marco* of gold there were to be struck 8½ *doblones*, and since the *marco* was equivalent to 230·0465 grm., it follows that each *doblón* weighed 27·064 grm. and contained 23·678 grm. of fine gold. And since each *doblón* was worth 16 *pesos*, it follows that each *peso* contained 1·4798 grm. of fine gold.

In the case of the silver coins the fineness of 10 *dineros*

20 *granos* was equivalent to 0·9027. Since from each *marco* of silver there were to be struck 8½ *pesos*, it follows that each *peso* weighed 27·064 grm. and contained 24·431 grm. of fine silver.

Thus the legal ratio between gold and silver was :

24,431 : 1,479 or 16·52 : 1

For various reasons, principally because the dies were not yet ready, the coins provided for by this law could not be manufactured, according to Medina,[1] until three or four years later.

Meanwhile, the European market ratio between gold and silver in 1836 was 15·72 : 1, as shown by the following table indicating the relative commercial value of the two metals in the European markets from 1820 to 1865 :

Relative Commercial Value of Gold and Silver, 1820–65

Year	Ratio	Year	Ratio
1820	15·62 : 1	1852	15·42 : 1
1821	15·95 : 1	1853	15·35 : 1
1825	15·70 : 1	1854	15·22 : 1
1830	15·82 : 1	1855	15·32 : 1
1831	15·72 : 1	1856	15·31 : 1
1833	15·93 : 1	1857	15·24 : 1
1836	15·72 : 1	1858	15·26 : 1
1838	15·85 : 1	1859	15·22 : 1
1839	15·62 : 1	1860	15·25 : 1
1843	15·93 : 1	1861	15·38 : 1
1847	15·80 : 1	1862	15·32 : 1
1848	15·85 : 1	1863	15·29 : 1
1850	15·70 : 1	1864	15·29 : 1
1851	15·35 : 1	1865	15·32 : 1

It is to be observed, accordingly, that the legal ratio of 16·52 : 1, established by the law of 1834, was not in accord with the European market ratio. The Chilean law gave the silver coins a lower value than they actually possessed in the European market, and this difference, since it was considerable, necessarily produced a tendency toward their exportation.

In reality the silver coins began to circulate at a certain premium, and the government was obliged to recognize this premium in order to prevent their disappearance from circulation. On November 24, 1838, accordingly, the President of the

[1] J. T. Medina, *Las Monedas Chilenas.*

republic decreed that 'the treasuries of the State shall receive and deliver the current *pesos fuertes* with a premium of $6\frac{1}{4}$ per cent.'. This order was to remain in force as long as there was no change in the value of the said coins, 'in which event the government shall adopt such measures as are deemed expedient.' In plain language this meant that the government would modify the legal ratio in such a way as to bring it more into accord with the market ratio.

But this decree referred only to the *pesos fuertes* and not to the other submultiple silver coins, such as the *reales de a dos*, *reales*, etc., which, like the *pesos* or *reales de a ocho*, were of full weight and free coinage.[1]

Inasmuch as the premium on the silver coins continued to increase until in the year 1843 it reached 9 per cent. or more, these coins, especially the smaller denominations, on which the government had established no premium, disappeared from circulation more and more, until they became very scarce. Why was it, then, that the government recognized the premium on the *pesos fuertes* and failed to extend this recognition to the other silver coins, since all of them, according to Article 7 of the law of October 24, 1834, contained the same proportion of fine silver? The explanation of this was given by the Minister of Finance in the session of the Chamber of Deputies of August 7, 1843: 'The premium on the *peso* of eight silver *reales*', he said, 'was three-quarters of a *real*, and it would have been very inconvenient in the making of payments to apply this same premium to the coins corresponding to one-half, one quarter, one-eighth, one-sixteenth, and even one-thirty-second (*cuartillo*) of a *peso*.'

But it is not to be supposed that the market was entirely deprived of silver subsidiary coins. The so-called *macuquina*, that is, clipped and abraded coins, continued to circulate in an appreciable quantity, and owing to the lack of anything better,

[1] The *real de a cuatro* authorized by Article 6 of the law of 1834 was not coined, for no reference is made to it in the law of 1843. J. T. Medina also states that it was not coined, and he says the same of the *cuartillo*. *Las Monedas Chilenas*, p. 188.

they discharged the functions of subsidiary currency. Deputy Toro, referring to this *macuquina*, expressed himself in the session of the Chamber of Deputies of August 7, 1843, as follows: 'And it was very fortunate that this was so, for otherwise the exchange was so favourable for speculators that it would all have disappeared (i.e. the silver coins), and today we would not have as much as a *real* in circulation.'

CHAPTER XII

THE MONETARY LAW OF 1843

Under these circumstances the government resolved to bring about the passage of a new law. It was promulgated on August 18, 1843, and its principal provisions were the following:

Article 1. The mint is authorized to purchase silver bullion twelve *dineros* fine at a price not exceeding nine *pesos* seven *reales* per *marco*.

Art. 2. All the silver which the said mint purchases by virtue of this authorization shall be used for the manufacture of full weight coins or *pesos fuertes*, subject to the orders and instructions issued by the Government in regard to the matter.

Art. 3. The fineness of the silver coins shall continue to be ten *dineros* twenty *granos*.

Art. 4. The *pesos fuertes* shall also continue to be coined with the weight of 542 $\frac{8}{100}$ *granos* assigned to them by the ordinance in force.

Art. 5. The mint shall manufacture small silver coins only of the following *tallas* (denominations): *reales de a dos* weighing one hundred twenty *granos*, *reales sencillos* weighing sixty *granos*, and *medios reales* weighing thirty *granos*.

Art. 6. The full weight silver coins shall be manufactured exclusively with public funds and for the account of the national treasury.

Art. 7. To private introducers of bullion who wish to have it coined into *pesos fuertes* the mint shall pay eight *pesos* seven *reales* for each *marco* of silver twelve *dineros* fine, which payment shall be made in *pesos fuertes* without any deduction by way of seigniorage.

Art. 8. If the President of the Republic shall deem it expedient to establish a bank for the purchase of silver bullion in the Province of Coquimbo, he shall be authorized to fix the commission payable to the agent or agents participating in the purchase, with the understanding that the said commission shall not exceed one per cent.

The fineness of the silver coins (10 *dineros* 20 *granos*—equivalent to 0·9027) was not modified. The weight of the *pesos fuertes* was also left unchanged, since $542\frac{8}{100}$ *granos* was the same as 27·063 grm.[1]

Of what, then, did the reforms consist? They consisted of the provision of Article 5, whereby the *reales de a dos* were to weigh 120 *granos* instead of $135\frac{1}{2}$ *granos*, the weight which corresponded to them by reason of their being equivalent to one-quarter of a *peso*. The *reales sencillos* and *medios reales* were to be coined with the same relative proportion of silver, that is, with 60 and 30 *granos* respectively, which was equivalent to diminishing the amount of silver in them by 11·4 per cent. This was calculated to prevent their continuing to circulate with a premium, or to bring the established legal ratio between gold and silver in closer accord with the market ratio. In Article 6 it was provided that the full-weight silver coins were to be manufactured exclusively with public funds and for the account of the national treasury. Thus a certain restriction was placed upon the manufacture of these coins, as in the case of subsidiary or token coins. According to the law of 1834, the two *reales*, one *real*, *medio real*, and *cuartillo* pieces, were of full weight and free coinage, like the *real de a ocho* piece and the *peso*; but the law of 1843, with which we are now concerned, suspended their free coinage and reduced their fineness, thus giving them the character of silver subsidiary coins. They were not exactly token coins, however, since their intrinsic value was very nearly equal to their nominal or legal value; but they were like token coins in that their manufacture was restricted and reserved to the government.

This, accordingly, was one of the periods in the monetary history of Chile in which the exportation of silver coins and the manufacture of subsidiary or token coins produced a *de facto* gold standard *régime*, although in theory the bimetallic system or double standard remained in force.

The question arises, Why was it that the legal ratio between gold and silver was not modified simply by arbitrarily increasing

[1] At the rate of 0·049923 *gramo por grano* (gram for each grain).

the legal value of the silver coins in circulation ? The reason is that the monetary policy of the government at that time was to conserve the stock of gold coins. In the latter part of the colonial period, and more especially in the first part of the period of independence, it is to be observed that the legal ratio was generally made favourable to gold, so as to prevent the exportation of that metal. The law of 1834 adopted the ratio of 16·52 : 1 when in the European market the ratio was 15·7 : 1 ; and in 1843 there were manufactured silver coins of less weight with the character of subsidiary or token coins. In 1843 the Minister of Finance, Señor Renjifo, made known to the Chamber of Deputies the danger that the gold coins, if their legal value were reduced, might be exported to neighbouring countries. It was undoubtedly a monetary policy favourable to gold.

Is it possible that the English monetary reforms of 1819, which mark the point of departure from the modern gold standard, exerted some influence in Chile in 1834 and 1843 ?

CHAPTER XIII

THE SUBSIDIARY OR TOKEN COINS

In the old bimetallic system the silver coins of full weight served as subsidiary currency, but only up to a certain limit ; for beyond that limit they became too small and consequently too inconvenient for use. But there were also the so-called ' token coins ' (*monedas de vellón*), which contained very little silver and consisted mostly of pure copper. The right to make these coins was strictly reserved to the state, that is, to the king. Thus in Spain, in the days of the Catholic kings, *maravedis* containing only $\frac{24}{1000}$ of silver were used ; and later on *maravedis* of pure copper were introduced.

But it seems that the manufacture of these token coins, from which the state derived a good profit, was reserved to the king to the point that it was not permitted even in the American colonies. During the entire colonial period the Santiago mint manufactured nothing but gold and silver coins of full weight.

In the monetary system of the first few years of the country's independence, the system inherited from the colonial period, the lowest subsidiary coin was the silver *cuartillo* of full weight, which was altogether too small for convenient use. There were no token coins containing a small proportion of silver, nor were there any copper coins.

J. T. Medina reproduces the following interesting observations made by a foreign tourist in 1822 : [1]

> Many times my attention has been attracted to the scarcity of change. There is no coin in circulation smaller than the *cuartillo*, a quarter of a *real*, which, if we value the *peso* at four shillings sixpence, is worth more than sixpence ha'penny. The *cuartillos* are not coined here, however, and are so scarce that I have seen only three of them since April. In consequence we may say that the smallest coin is the *medio*, worth about threepence ha'penny—a sum which, according to the price of meat and bread here, would be sufficient to provide food for an entire family. What, then, can the working man do ?
>
> This evil, great as it is, has given rise to a still greater one. In order to give change to persons who make purchases amounting to less than a *medio* or a *cuartillo*, the storekeepers pass out certain *vales* (tickets) in exchange for *reales* or *pesos* ; but these *vales*, even when the article sold is worth half a *peso* and the *vale* the other half, are not redeemable in cash but only in merchandise, so that the storekeeper is assured of all of the poor man's money—to say nothing of the countryman who, not knowing how to read or write, may lose or even destroy his *vale*. Some of the big merchants who have relations with the Ministry have not failed to take advantage of this situation, and have established a large number of retail stores under the name of *jentes inferiores* (common people). And this is doubtless one of the reasons for the delay in the manufacture of small coins, of which the country is in such sore need.

From the first days of the country's independence various bills providing for the manufacture of small coins were submitted to Congress, as will be seen from the *Sesiones de los Cuerpos Legislativos* and from J. T. Medina's work, *Las Monedas Chilenas*. As a rule they had a double object : (1) the financial object of providing funds for the government ; (2) the economic monetary object of furnishing change for small transactions.

So great was the need of a smaller coin than the silver *cuartillo* that the landholders, merchants, and retailers issued

[1] *Las Monedas Chilenas*, p. 188.

'*senas* (tokens) or *mitades* (halves) made of copper, lead, and even leather and similar to those called *clacos* or *tlacos* in Mexico '.[1]

In spite of all this the manufacture of copper coins was not begun until the passage of the law of October 24, 1834, to which we have just referred. Article 12 of this law provided for two denominations of copper coins—*centavos* and *medios-centavos*. In this kind of metallic currency, the manufacture of which is restricted and the intrinsic value of which is much lower than its legal or nominal value, the question of weight and fineness is of no great economic importance. The selection of copper as the metal to make them out of was natural, since Chile produced that metal.

Article 17 of the said law provided that the total amount of these copper coins put into circulation was not to exceed 30,000 *pesos*; and Article 18 authorized the President to limit their legal-tender power, as has been customary with currency of this kind, to the end of preventing them, in case of their being issued in excess, from driving the standard coins out of circulation.

CHAPTER XIV

THE FIRST EFFORTS PUT FORTH TO ESTABLISH A BANK IN CHILE

From the earliest days of the independence of Chile there was manifested a disposition, supported by certain members of the ruling classes, to establish a banking institution through the mediation of the state. On September 18, 1810, the so-called *Junta de Gobierno* was constituted—the procedure commonly looked upon as the first manifestation of the country's independence. Shortly afterwards, on January 11, 1811, the secretary of the consulate of Santiago, Señor don Anselmo de la Cruz, submitted a memorandum setting forth a project for the establishment of a bank 'in which the person who so desires may voluntarily place his money at 5 per cent. interest, and

[1] J. T. Medina, *Las Monedas Chilenas*, pp. 189 *et seq.*

the person who needs money may borrow it at 6 per cent. interest'. The bank was to be located in the consulate itself, which was to serve as an intermediary for the receiving of deposits and the making of loans. Those who solicited loans, it was stipulated, were 'to offer securities and mortgages fully satisfactory to the court, covering both the principal and the amount corresponding to the annual interest'. The administrative expenses were to be paid out of the 1 per cent. difference between the interest paid on deposits and the interest received on loans—an allowance which was inevitably destined to prove inadequate. The memorandum estimated the amount of money which might be deposited at 1,000,000 *pesos* (a figure wherein there was doubtless an element of imagination), and pictured with genuine optimism the beneficial effects which the institution would have upon commerce, industry, and agriculture.[1]

This bank, as will be seen, was more than a state bank; it was in fact the state converted into a bank, since the *Junta de Gobierno* itself was the body appointed to direct its operations.

This project, which was never carried out, was submitted under conditions which would surely have led to failure. Even if it had been carried out, that is, even if there had been founded a bank which, without any large amount of capital, might have inspired the public with the necessary amount of confidence in those days of so much political insecurity and unrest—which was in itself too much to expect—it would have been no easy matter for such a bank, as the originator of the project imagined, to lend out with the proper security all of the money it received in trust. The history of both Americas records many failures of banking institutions improperly organized and incompetently directed by persons having little knowledge of the true state of their affairs.

On July 13, 1812, there was issued a decree authorizing the establishment of a bank for the purchase of gold and silver bullion in the town of Huasco. The idea of establishing a bank

[1] For the text of this memorandum see MIGUEL CRUCHAGA, *Estudio sobre la organización económica y la Hacienda Pública de Chile* (Santiago, 1878), vol. I; R. SANTELICES, *Los Bancos Chilenos* (Santiago, 1893).

for the purchase of the precious metals—an idea which has several times cropped out in Chile—was introduced into Chile from Mexico and Potosi, where similar institutions had been established by the Spaniards. This bank was not intended to receive deposits and make loans, but rather to buy the precious metals and turn them over to the mint for coinage, an operation from which the bank derived a certain margin of profit.

In 1814 Chile was reconquered by the Spaniards, who remained in control of the country until 1818, when the national independence was definitively established. In that year, as soon as the *régime* of independence began, the Senate again resolved upon the establishment of a bank for the purchase of gold and silver bullion in the town of Huasco. Although the projected institution was given a very pompous name, *Banco Nacional de Minería*,[1] in reality its chief function was not to receive deposits and make loans, but to buy and sell the precious metals. In March 1819, moreover, the necessity of creating such an institution was again insisted upon. Although the exportation of metals had been prohibited without payment of the export tax levied by the government, the illegal traffic was such that the government was deprived of the revenue proceeding from that source and the mint lacked bullion for the manufacture of coins. In October and November of the same year, therefore, the Senate once more insisted upon the same point.[2]

In 1820 Señor don Augusto Brant laid before the government a proposition to establish a company called the *Compañía Mercante y Banco Nacional de Chile*, which was to have a ' paid-in and secured capital of 1,000,000 *pesos* divided into 5,000 shares '.

> The funds of the bank shall be sacred and inviolable. The Government shall not have the right to violate, infringe upon, or contract for its privileges ; neither shall it have the right to demand contributions of any denomination whatsoever, and only in urgent cases shall it negotiate for loans with its directors (Article 2).

[1] *Sesiones de los Cuerpos Legislativos*, vol. II, p. 26.
[2] *Ibid.*, vol. III, pp. 245, 401.

The Bank shall have the right to issue notes signed by its directors up to the amount of its metallic reserve, and such notes shall be receivable by the Government at par (Article 3).

The Government concedes to this *Compañia Mercante* the exclusive right to trade in quicksilver, which the directors shall procure at the lowest price possible (Article 4).

All the gold and silver produced in the territory of the Republic or introduced into the country in the form of bullion, shall be sold to or deposited in this national establishment, which shall deliver it to the monetary officials in order that it may be stamped or sold to the goldsmiths or silversmiths of the country, or else shall negotiate with the government regarding its exportation in the event of there being an abundance of it on hand (Article 5).

The institution in question was primarily intended for the purchase and sale of metal, like the so-called ' bullion banks '. At the same time, however, it was to have the right to issue notes, this giving it the character of a bank of issue. The project likewise was never carried out, although it attracted considerable attention at the time.

Subsequently, on March 21, 1821, the Senate, acting in conformity with a suggestion of President O'Higgins, resolved upon the establishment of a bank under the following conditions : [1]

Its capital was to consist of 20,000 *pesos* advanced by the government in the form of legal currency or gold and silver bullion, as also of ' the shares (of 500 *pesos* each) which the native-born or naturalized citizens of the country may wish to contribute '. The amount of capital to be subscribed by the public was not definitely fixed. Its operations, according to the project presented, were to be : ' to purchase gold and silver, and for this purpose to locate its private offices in the mining regions of the entire State, retaining in its favour, and for the increase of its profits in common, one-half of the *quintos* of gold and silver that may be coined in the State, exclusive of the *derechos de cobos y minería*,' a mining tax levied by the government.

This project, like the preceding projects, was presented

[1] *Sesiones de los Cuerpos Legislativos*, vol. v, p. 99.

with a view of establishing, not a bank for receiving deposits and making loans and discounts, but rather an institution for the purchase and sale of bullion—a business which was held advantageous to the state, for the reason that it prevented the miners from selling the contraband metals without paying the government tax and without passing them through the mint. It was also held advantageous to the shareholders, moreover, since the operations involved in the purchase and sale of bullion yielded a margin of profit in their favour. This institution, according to the project, was not to enjoy the privilege of issuing notes.[1] The project, like the preceding one, was not carried out.

Another undertaking for the establishment of a bank for the purchase and sale of bullion was submitted to the government in 1825 by Señor don Onofre Bunster, but this likewise was never realized.[2]

CHAPTER XV

CONTINUATION OF THE EFFORTS PUT FORTH TO ESTABLISH BANKS IN CHILE

The first few years of the independence of Chile were marked by political unrest and administrative disorganization. Not until 1830 did the government begin to acquire stability and the public institutions to consolidate themselves, Chile thereafter constituting a true exception on the continent as regards the observance of law and the maintenance of public order.

In the years 1837, 1838, and 1839 the administrative

[1] These so-called *bancos de rescate* (bullion banks) were not primarily credit institutions, that is, banks for the receiving of deposits and the making of loans, but rather were companies organized for the purchase and sale of certain commodities, not necessarily the precious metals, a business for which they were conceded certain exclusive privileges and from which they derived a certain margin of profit. Thus, besides the banks for the purchase of gold and silver, such as the Potosi banks and those whose projects we have considered, there was in Bolivia, for instance, a bank for the purchase of *cascarilla* (Peruvian bark), another for the purchase of cocoa, and another for the purchase of cinchona (*Banco Nacional de Quina*).

[2] *Sesiones de los Cuerpos Legislativos*, vol. XI, p. 228.

authorities of the Province of Coquimbo advised the government that certain commercial establishments located in the mining districts of the north had begun to issue certificates (*vales*), which they were circulating as notes convertible into legal currency and using to pay the wages of their employés; also that some of them, on the ground that there were no other circulating media, had even gone so far as to offer these certificates in payment of public dues.

In view of this situation, on November 3, 1839, the government issued a decree containing the following provisions:

ARTICLE 1. No person shall establish a bank or issue certificates or bills of credit without first applying to the Governor and municipal officer of the Department for permission to do so, stating how much he desires to put into circulation and offering mortgage guarantees satisfactory to the said Governor and municipal officer, in order to insure the exact and punctual payment, in lawful money, of the notes issued.

ART. 2. If the Governor and municipal officer find the said guarantees sufficient and suitable, they shall inform the Intendant of the Province thereof, at the same time giving him all the necessary details, in order that he may lay the matter before the Supreme Government with the corresponding information; and until the Supreme Government makes known its decision, the solicited bank shall not be established or the solicited notes issued.

ART. 3. Those found guilty of contravening the provisions of the foregoing articles shall be liable to punishment as prescribed in the aforesaid Law 5 a, Title 3, Book 9, of the *Novísima Recopilación*.

ART. 4. The establishments which have given rise to the present decree shall suspend the issue of notes as soon as it is published in the Department of their residence, and they shall offer suitable guarantees for the redemption of those which they have already issued in the manner prescribed in Article 1.

It may be said that this decree constituted the first law or order of the Chilean authority governing the right to found banks. In reality there was no bank to regulate; but it was a question of commercial establishments or individuals engaged in performing some of the functions of banks, such as that of issuing notes.

In 1845 the government appointed a committee to decide upon the advisability of founding a bank through the mediation

of the state. Afterwards, however, it renounced this idea and undertook to encourage the establishment of private banks.

We reproduce at this point some paragraphs from a memorandum which the Minister of Finance submitted to the National Congress in 1847 :

The opinion of the majority of thoughtful men has declared itself, not only in favour of banks, but also in favour of a state bank.

There are many theoretical objections to the creation of a bank for the government account ; and as the practical results achieved in all nations at all times have completely justified them, it is unnecessary to allege principles which are not based on facts—facts well examined and well substantiated.

The United States, so recently initiated into constitutional life, so prone to war, so effervescent, would perhaps not be sufficiently circumspect administrators. Who would impede excessive issues of notes whenever they believed the national honour compromised ? Who would deprive the Executive of this powerful arm ? The Chambers ? But these may be preoccupied, undermined by the spirit of partizanship ; they may not be sufficiently strong, sufficiently independent, to raise a strong barrier against excesses. On the other hand, does not the administration of all our revenues show with ample clarity that governments are far from economical ?

Nevertheless, this is a question which is to a certain extent useless. That to which I attach greater importance is this. What would be our means of promptly providing ourselves with foreign capital offered on loan at a moderate rate of interest ?

The government entered into negotiations with a London firm for the establishment of a bank ; but the capital with which the firm proposed to conduct the operation was very small and the interest which it proposed to charge was too high. The government replied that it would admit, subject to the approval of the legislature, a paid-in capital of a million *pesos*, and that it would authorize the enterprisers to issue bonds up to the amount demanded, provided the English bank would guarantee the credits and the interest would not exceed 5 per cent. Although the agent of the firm requested time in which to think the matter over, I doubt that it is possible to arrive at an agreement.

In September 1848, the same Minister of Finance gave account to the National Congress of the result of his negotiations, expressing himself as follows :

There are two ways of satisfying the generally felt need of credit institutions to furnish at a low price the funds required by the industries

already established and those to be established—private banks and a state bank.

Inasmuch as the government was convinced that in dealing with such matters the proper procedure was, not the most advantageous in theory, but the most feasible in practice, it authorized the diplomatic representatives of the Republic residing in Paris and Washington to enter into negotiations for the foundation of a bank. Both have set about with determination to execute the difficult commission entrusted to them, and if, by any unfortunate chance, their efforts should prove futile, it will be necessary to negotiate a loan with this object.

Credit is the most valuable asset of the government; and I, for my part, would not have vacillated in advocating the establishment of a state bank, had I not known of the almost insuperable obstacles which many of the most prominent citizens of the country are raising against it, and also of the dangers which would confront such a bank by reason of the inexperience of those who would be appointed to direct it. The private banks will furnish the practical ideas, establish the customs, and promote the legal reforms that are essential to the foundation of a state bank.

It is to be seen from these documents that the government did not allow itself to be actuated or guided by general theories or principles. It did not flatly reject the theory of the central bank established through the mediation of the state; but at the same time it saw some justification in the opposition to which this idea had given rise. On the one hand, therefore, there is to be noted a certain practical criterion, and, on the other hand, an excessively conservative spirit prevailing among the administrative authorities.

In the foregoing documents, our attention is also attracted to the negotiations entered into abroad for the establishment of a bank with foreign capital—negotiations which came to naught for the reason that the capital offered was too small and the interest which it was proposed to charge too high. In this there is to be noted a certain practical intention to protect the economic interests of the country. How different a criterion was that adopted forty years later when it was decided to accept the establishment of foreign banks without any restriction whatsoever!

CHAPTER XVI

FAILURE OF THE BANKING ENTERPRISE OF SEÑOR ARCOS

In 1849 the Minister of Finance, Señor don M. Camilo Vial (who had held the same office in 1848), drew up a tentative contract with Señor don Antonio Arcos for the establishment of a bank of issue toward which the government was to contribute a capital to the amount of 1,000,000 *pesos*. This bank was to enjoy the exclusive privilege of issuing notes for a period of twenty years, during which no other bank was to be established by the sale of stock shares. Its credits were to enjoy the privileges conceded to the fiscal taxes for their collection, and its vaults were to receive the judicial deposits. Moreover, its notes were to be receivable as legal currency in all the treasuries and collectors' offices of the republic.

On the basis of these terms Señor Arcos filed a petition requesting the government to formalize the contract. Just at that time, however, there was a change in the ministry, and on June 17, 1849, Señor don Antonio Garcia Reyes, who succeeded Señor Vial, rejected the petition.

In view of this opposition Señor Arcos modified the terms of his petition and again presented himself to the ministry, this time soliciting authority to establish simply a private bank under the name of the *Banco de Chile de Arcos y Cía.* On July 26, 1849, the government resolved to grant the authorization solicited under the following conditions: (1) that there should be deposited in the fiscal vaults a guarantee of 100,000 *pesos* constituted in bonds of the 3 per cent. national loan, which would correspond to a capital of 1,000,000 *pesos*; (2) that the guarantee should be increased in the proportion of 10 per cent. if the capital exceeded 1,000,000 *pesos*; (3) that the bank, if it should suspend the payment of any certificate or bill of credit issued by it, should 'immediately and permanently lose the aforesaid rights and favours, and be liable to immediate suppression' (Article 5). The rights and favours referred to the permission to function granted by the government.

Article 6 of the decree further provided : ' If within a period of ten years it should be deemed expedient to establish a national bank, the government shall give preference to the *Bank of Chile*, the circumstances being equal, over any other establishment which offers to negotiate with it regarding the matter.'

Article 7 denied the request made by Señor Arcos that the certificates or bills of credit issued by the bank should be ' receivable in all the treasuries and collectors' offices of the Republic '.[1]

The bank was established and immediately began to issue notes payable to bearer and convertible into legal currency ; and it was the first bank, properly so called, to be established in the country. It was not long, however, before protests began to be raised against its notes. A group of Valparaiso and Santiago merchants called upon the government ' to order the bills, certificates, and notes issued by the *Banco de Chile de Arcos y Cía.* withdrawn from circulation, and to prohibit the issue of such bills, certificates and notes in the future, for the reason that they are contrary to the legal conventions '.

In view of this opposition on the part of the public, and of a judgment of the Supreme Court declaring notes payable to bearer of the kind issued by the *Banco de Chile de Arcos y Cía.* non-receivable as executive documents and non-transferable without endorsement, on April 17, 1850, the government decreed that ' in the future the *Banco de Chile de Arcos y Cía.* shall not be able to issue certificates of credit payable to bearer at sight '.

In view of this resolution depriving the bank of its right of issue, the directors called upon the government to return the guarantee of the 100,000 *pesos* constituted in bonds of the 3 per cent. national loan ; and on April 26, 1850, the Minister of Finance, justifying his act on the ground that according to the laws in force at that time the banks were to furnish security,

[1] The documents relating to this matter of the *Banco de Chile de Arcos y Cía.* were published by Agustín Ross in *Los Bancos de Chile* (Valparaiso, 1886), and later by Ramón Santelices in *Los Bancos Chilenos* (Santiago, 1893).

resolved that 'the petition for the return of the 100,000 *pesos* in bonds of the 3 per cent. national loan, which were to remain on deposit in the fiscal vaults as long as the *Banco de Chile de Arcos y Cía.* existed, is denied'.

Inasmuch as the principal function of this bank was that of issuing notes, the directors decided to liquidate its affairs. This terminated the clumsy negotiation; and of the *Banco de Chile de Arcos y Cía.* we may say what the poet said of the rose: It lived but the length of a morning.

Characteristic of Chile's monetary policy of those days was the repugnance that was exhibited toward everything that might lead the country into a *régime* of paper currency. The memorandum which the Minister of Finance submitted to the National Congress in 1824, before the government was organized on a solid basis, contained the following statements relating to the scarcity of circulating media: 'No means should be omitted to have as much as possible coined. The scarcity of currency is a matter of transcendent importance and is so well known that it need not be discussed—especially in a country which has no paper currency and would admit it only at the point of the bayonet. The person who dared to propose it would be looked upon as a dreamer, a tyrant, even a heretic.' [1]

The government organized in 1830, being essentially conservative and prudent, deliberately held itself aloof from everything that involved any element of danger, as did the question of the issue of bank notes. The public authorities were aware of the calamities suffered in other countries for this cause, and they were desirous of avoiding them in Chile. They did not deem the establishment of a state bank advisable, nor did they even venture to organize a bank of issue; but instead made an effort to encourage the foundation of private banks, with the understanding that they should be granted the right to issue notes under certain conditions to be fixed by law.

In 1850 the Minister of Finance expressed himself in the memorandum which he submitted to the National Congress as follows: 'God grant that we may hold ourselves aloof from

[1] *Sesiones de los Cuerpos Legislativos*, vol. IX, p. 68.

institutions such as banks of issue; but if we should come to the point of establishing one, the only secure bases on which it could serve the public are those which some merchants published on another occasion and which I deem it opportune to reproduce here:

1. Solidary responsibility of all the stockholders, the latter constituted as a collective company.
2. Limitation of the amount of paper issued to a certain proportion of the capital deposited in the vaults.
3. Deposit of security for the payment in cash of all notes issued, the amount of the security to be proportionate to the issue and not to the capital.
4. Prohibition of other operations; establishment of an independent and efficacious inspection; publication of a correct and authentic statement giving the names of the stockholders and the total amount of the deposits, loans, issues, and assets of the bank.
5. Prohibition of the making of loans to the government and of the buying and selling of bonds of the national debt.'

If a state bank had been established it would probably have been endowed with a serious and responsible administration, as happened in the case of the *Caja de Crédito Hipotecario* created in conformity with the law of 1855. The governments of that time, which were not guided by the partizan demands of the members of parliament, were stronger than those of the present time and were more free to elect administrative officers. The institution would very likely have made mistakes due to inexperience, but it certainly would not have made mistakes due to dishonesty. It is probable that a state bank or bank of issue would sooner or later have had to declare its notes inconvertible. As we shall see farther on, however, the system of free banking was no more efficacious, either in Chile or in Peru, in the prevention of this difficulty.

CHAPTER XVII

THE MONETARY LAW OF 1851

In 1838, as will be remembered, it was decreed that silver *pesos* were to circulate with a premium on the gold coins established in conformity with the law of 1834; and subsequently, in 1843, the weight of the silver subsidiary coins was reduced (chapters XI and XII).

In 1850 the government decided to regularize the currency system by bringing the legal ratio between gold and silver more in harmony with the market ratio; and to that end it submitted a bill to Congress. At that time the markets of the world were being flooded with California gold, which caused an increase in the relative value of silver. As a consequence, in the European markets the ratio decreased from 15·93 : 1 to 15·22 : 1 between the years 1843 and 1854.

During the discussion of the above-mentioned bill in Congress the Minister of Finance declared that he had made an effort to ascertain the true market ratio of the two metals in Chile, and that his investigations showed 'that the relation between gold and silver, both metals in a state of purity, is 16 : 1, which ratio has been adopted in the bill with a slight increase in favour of gold'.[1] Thus according to the testimony of the Minister of Finance, the market ratio in Chile was 16 : 1, whereas in Europe it was around 15·50 : 1.[2]

The government also wished to reduce the weights of the coins to the decimal metric system, which had already been officially adopted in Chile.

It is interesting to note that in the discussion of this bill nobody, so far as I know, proposed to follow the example of England and adopt the single gold standard. Silver continued to maintain all its monetary prestige in Chile, and nobody

[1] *Sesión de la Cámara de Senadores de 20 de Diciembre de 1850.*

[2] In December 1850, the Minister of Finance declared that according to the English newspapers of August (at that time there was no cable) the ratio between gold and silver was 15·76 : 1 in England and 15·74 : 1 in France. In December of that same year this ratio had decreased a little, averaging 15·35 : 1 for the year 1851

seemed to fear a future depreciation of it. Nevertheless, the government was always inclined to favour gold currency, since the law established a legal ratio somewhat more favourable to gold than the market ratio.

The bill in question was promulgated as a law on January 9, 1851, and according to its provisions the weight and fineness of the coins in use were to be as follows :

The gold *condor*, worth 10 *pesos*, was to contain 15·253 grm. of metal $\frac{9}{10}$ fine. Thus each *peso* was to weigh 1·5253 grm. and contain 1·473 grm. of fine metal.

The silver *peso* was to contain 25 grm. of metal $\frac{9}{10}$ fine or 22·5 grm. of fine metal. The other silver coins, submultiples of the *peso*, that is, the *medio-peso* (half-peso) or 50 *centavos* piece, the 20 *centavos* piece, the 10 *centavos* piece, and the 5 *centavos* piece, were also of full weight and hence of free coinage, and their fineness was precisely the same as that of the silver *peso*.

The ratio of the two metals was thus 16·39 : 1.

Finally, the President of the republic was authorized to designate ' the strong and weak with which the gold and silver coins may be put into circulation ', which in modern terminology means that he was authorized to fix the limit of tolerance in the weight and fineness of both kinds of coins—a power vested in the Executive by Congress.

The token coins, consisting of the copper *centavo* and *medio-centavo*, were maintained, as was also the power conceded to the President to ' fix the quantity thereof which shall be legally receivable in the making of payments '. This last was another power vested in the Executive by Congress.

CHAPTER XVIII

THE MONETARY LAW OF 1860

On July 28, 1860, a new monetary law containing the following provisions was passed. There was created a gold coin of the value of 1 *peso*, which was to have the same fineness of $\frac{9}{10}$ and was to weigh 1·525 grm., a weight 0·0003 of a grm. less than that specified in the law of 1851. Article 2 of the said law, moreover, read: 'The mint shall stamp up to five hundred thousand *pesos* in silver coins of twenty, ten, and five *centavos* with a fineness of $\frac{9}{10}$. The twenty *centavos* piece shall weigh four grams sixty centigrams, the ten *centavos* piece two grams thirty centigrams, and the five *centavos* piece one gram fifteen centigrams.'

These were the fundamental provisions of the law.

No change was made in the silver *peso*, but the weight of the silver subsidiary coins was reduced so that it amounted to 23 grm. per *peso*, the weight of the *peso* itself being 25 grm. These subsidiary silver coins of slightly reduced weight were not of free coinage.

This was an expedient similar to that adopted by the law of 1843 (chapter XII) to the end of preventing the exportation of silver coins. According to the law then in force, that is, the law of 1851, the silver subsidiary coins were of free coinage and of the same fineness as the silver *pesos*. The present reform reduced their weight in order to prevent their exportation. Thus the law of 1860 was to the law of 1851 what the law of 1843 had been to the law of 1834. Under a bimetallic *régime* many years could not elapse with the same law in force, since the fluctuations of the market value of gold and silver made it necessary to modify the laws. The difference between the law of 1843 and the law of 1860 was that the former, in order to prevent the exportation of the silver *peso*, maintained the payment of a premium in favour of the silver currency, whereas the latter attempted to replace the exported silver *peso* by the new gold *peso*.

The slight reduction in the weight of the silver subsidiary coins did not signify giving them the frank character of token coins, since it was calculated that the intrinsic value of the new silver coins would remain at the level of their legal value.[1] Nor was there, in this operation, any profit for the government which issued the coins.

A deputy qualified this new silver currency as ' underweight ' and proposed, in the discussion in the Chamber, to limit the amount of it to be received in payments. The Minister of Finance replied that ' this currency was not to be called " underweight " in the sense in which that word is used in the republics of South America and in which it is used in application to the Bolivian money, for the reason that it was not of the same fineness ; also, that to apply that word to the coins that were going to be issued was to discredit the law and lessen the prestige of the currency itself '.

The question is : Were these token coins or were they not ? In a certain sense they undoubtedly were ; that is, in that their coinage was not free ; at the same time, however, their intrinsic value was approximately the same as their legal value. The measure of limiting the coinage was undoubtedly a prudent act on the part of the government, which recognized the necessity of anticipating any fall in the value of silver. At all events one fails to see what disadvantage there might have been in giving these silver subsidiary coins, submultiples of the *peso*, the true character of token coins with a very low content of silver, provided they were coined in proportion to the requirements of the market and their legal tender power was limited. In the bimetallic system existing in various countries, as in Spain itself, silver subsidiary coins containing very little pure silver and of strictly limited coinage were manufactured without altering the true standard, which remained that of both metals. But the Chilean legislators of that time saw fit to carry their

[1] The Minister of Finance declared in the Chamber that ' the State had nothing to do with this negotiation and derived no profit from it, but remained in the same situation as before, since the weight of the currency was going to be reduced up to the amount of the coinage, which was actually causing a loss to the State. *Sesión de la Cámara de Diputados de 17 de Julio de 1860.*

circumspection in the matter of the integrity of the monetary system to the point of not accepting, in theory at least, any silver subsidiary currency whatsoever.

On the other hand, this law of 1860 did not derogate from the provisions of the preceding law of 1851 regarding the silver coins of 25 grm. and of free coinage, that is, the silver *peso* and its submultiples of proportionate weight.

Five years later, on October 21, 1865, after the declaration of war against Spain, this same authorization given to the Executive to issue silver coins of the kind issued in 1860 up to the amount of 1,000,000 *pesos* was renewed.

CHAPTER XIX

THE DEVELOPMENT OF VIEWS IN FAVOUR OF THE FREE ISSUE OF BANK NOTES, AND THE ESTABLISHMENT OF THE FIRST BANKS

We have already seen that in 1850 the attempt to found the *Banco de Chile de Arcos y Cía.* failed because the government, acting in conformity with the ideas of those who were opposed to the circulation of certificates or bills of credit, deprived it of the right of issue, thus removing the principal incentive for its foundation. The current of opinion against the issue of notes was very strong until the year 1850; and on coming in contact with the *Banco de Chile de Arcos y Cía.*, it swept aside everything, overcoming the resistance not only of the enterprisers interested in the matter, but also of the partizans of the issue of notes, who were then beginning to declare themselves in favour of banks of issue.[1]

'In the decade between 1850 and 1860', says Señor don

[1] Nicomedes C. Ossa, a writer of that period, says in an article which was published in the *Revista Económica* in 1886: 'Meanwhile a strong current of opinion had developed among the merchants of Valparaiso and Santiago, and it flowed in two directions: on the one hand were those who were opposed to the *Banco de Chile de Arcos y Cía.* and sought to ruin it; and on the other hand were those who considered it licit and beneficial and sought to defend and sustain it.'

Agustín Ross,[1] 'some powerful influence which we cannot specify seems to have brought about a very notable change in the ideas of both the authorities of the government and the majority of the members of the two chambers. As a matter of fact, the prudent measures of precaution adopted in 1839 and 1849 were forgotten, so that, in the course of time, and in line with the natural commercial and industrial development of the country, several credit institutions and banking houses were created in various cities throughout the republic. Two of them located in Santiago—*Ossa y Cía.* and *Banzanilla, MacClure y Cía.*—began to issue certain paper bills, which some called certificates and others notes, we know not with what authority, since we are unable to find any legislative enactment revoking the decree of November 1839. The fact is that the notes of these two banks were already in circulation in 1856; and at the beginning of 1860, before the promulgation of the present law, those of the *Banco de Chile* also appeared.'

There was indeed, at that time, a notable change in the prevailing ideas regarding the issue of bank notes. In 1854 the commercial firm of *Banzanilla, MacClure y Cía.*, which was established in Santiago and occupied itself with consignments and other commercial operations, began to circulate among its customers 'certificates payable at sight and at the order of another commercial firm which endorsed them in blank'.[2] In 1856, moreover, the firm of *Ossa y Cía.*, already calling itself a bank, began to issue notes payable to bearer at sight.

In 1855, by virtue of a supreme decree of September 12 of that year, there was established the first incorporated company destined to conduct banking operations in Chile. This institution, called the *Banco de Valparaiso*, was to have a specified capital of 2,000,000 *pesos*, divided into 4,000 shares of 500 *pesos* each; but its operations were actually begun, as

[1] Agustín Ross, *Los Bancos de Chile* (pamphlet published in Valparaiso, 1886), p. 42.

[2] Nicomedes C. Ossa, 'Ligeros apuntes sobre el establecimiento y desarrollo de los Bancos de Emisión de Chile,' in the *Revista Económica*, 1887.

a matter of fact, with a paid-in capital of only 400,000 *pesos*.[1] Its operations, according to its statutes, were to be the following: discounting of bills of exchange, promissory notes, public debentures, and other government bonds; making of loans on collateral security; opening of credits on a current account; receiving of deposits in trust; making of credit collections for the account of third persons; taking charge of the purchase and sale of metals, bonds, and other securities; making of remittances from one place to another in the country and abroad; drawing of drafts, etc. Its statutes also contained the following curious provision (Article 11): 'The bank shall not issue notes payable to bearer or place in circulation certificates or bills of credit serving as paper currency.'

The founders of the *Banco de Valparaiso*, influential merchants of the near-by port, shared the opinion which ran counter to the circulation of notes, which opinion, as we have seen, was already very strong in 1855.

On September 5, 1859, a charter was granted in Santiago to a newly incorporated company called the *Banco de Chile*, the statutes of which were approved by a supreme decree of November 17, 1859. Its capital was at first fixed at 400,000 *pesos*. This new bank, which was organized by persons of great influence in Santiago, was to enjoy, besides other banking privileges, the right to issue notes payable to bearer at sight.

At the time of the foundation of the *Banco de Chile* the current of opinion in favour of giving the banks the right of issue had already completely overcome the counter-current of opposition.

The 'powerful influence which we cannot specify', referred to by Señor Ross in the paragraph reproduced above, was in my judgement that of the individualistic liberalism of the classical political economists, and especially of a certain branch of that

[1] In order to found this bank, Congress passed a special law on June 25, 1855, conceding it certain privileges calculated to facilitate it in the collection of debts and the discounting of bills of exchange. In the documents having to do with its foundation it is called the *Banco de Depósitos y Descuentos de Valparaiso*, but afterwards it was called simply the *Banco de Valparaiso*.

school which had acquired great prestige in Chile since the arrival of the French economist Juan Gustavo Courcelle Seneuil, who had been engaged by the Government of Chile in 1855 to act as advisor to the Minister of Finance and as Professor of Political Economy at the University.

Prior to the arrival of Professor Seneuil the politico-economic works most widely read in Chile were those of J. B. Say, since the teaching of the science in the *Instituto Nacional* was largely confined to the study of some chapters of that author.[1] In the matter of the issue of bank notes Mr. Say was not opposed, in theory at least, to the intervention of the government in the regulation thereof; on the contrary, he believed that the government had a right to intervene, 'just as it has a right to oppose the construction of a particular building which threatens to jeopardize the public health.' [2]

Professor Seneuil, on the other hand, was an admirer of the old free banks of Escocia and in general a fervent partizan of free banking, which he looked upon, in theory at least, as an ideal *régime*. And these doctrines were more in harmony with those of individualistic liberalism and free banking, according to which there exists in the social-economic world an order of natural laws which function properly when not disturbed by the intervention of the state.

Our foremost public men, and especially those who were educated at the University to the acceptance of these principles, believed unanimously in the theory according to which the true natural *régime* was that of free banking. Monopoly or exclusive privilege of the eminences in favour of a central bank would be an offence against the natural order.

If there had been opposition to the issue of notes prior to 1850, and if no agreement had been reached in favour of the creation of a central bank, this was due, as we have already

[1] According to J. Bello, prior to the arrival of Professor Courcelle Seneuil the teaching of political economy was reduced to the elucidation of some chapters of Say, 'which were poorly expounded by the professor and no better understood by the students.' Preface of the Spanish translation of the Politico-economic Treatise by Courcelle Seneuil (Paris, 1859).

[2] *Tratado de Economia Politica* (Spanish translation, Paris, 1836), vol. II, p. 361.

observed, not to doctrinary prejudices, such as those which began to exert an influence shortly afterwards, but to the excessively prudent and conservative spirit of the governments of that time. It is easily understood how, under certain conditions of the life of a people, the policy of decentralization of the issue of notes, and of free banking in general, might have had its partizans on account of its being considered preferable to the policy of centralization in the hands of a large central bank of issue; but the idea of looking upon the system of free banks as the only system in accord with the nature of things appears as a mere theory, lacking any serious foundation and, indeed, possessing many practical disadvantages. There is no scientific reason for giving the qualification of 'natural' to free banks and denying it to regulated or privileged banks. This was an absurd doctrinaire prejudice, which in practice served only to distort the judgement of the statesmen and hold them aloof from the positive observation of the facts and practical conditions of social-economic life, which must be the principal norms governing economic policy in general and banking policy in particular. It was natural that practical men did not come to appreciate the importance of a science such as political economy, which, far from enlightening them in such a way as to enable them to work in accord with the circumstances of the moment, seems to have withdrawn them from the real problems of life and placed them in an economic world which existed only in the realms of theory. The most intelligent and illustrious statesmen we have had, up to a short time ago, occupied their minds with the influence of these theories, and they withdrew from the realistic and inductive study of our economic problems, convinced, as they were, of the soundness of their principles.

CHAPTER XX

THE BANK OF ISSUE LAW OF JULY 23, 1860

For some time the Government of Chile devoted its attention to the study of a general law which would fix the necessary conditions for the establishment of private banks enjoying the right of issue. From the time of the negotiations having to do with the *Banco de Chile de Arcos y Cía.* it could be seen that the state was orienting itself toward the decentralizing policy of encouraging the establishment of private banks and withholding special privilege in favour of any particular institution. The arrival of Professor Seneuil, as we have seen, served as a powerful reinforcement to the current opinion partizan to the *régime* of free banking, and the government authorities of that time adhered decidedly to this orientation.

In 1859 the government laid before Congress a general bank of issue bill which had been inspired by Professor Seneuil himself. We reproduce here some paragraphs of the message which accompanied the bill:

> Several times the establishment of a bank by the state has been proposed; but on each occasion the government has rejected the proposal on the ground that it was extremely dangerous, since it placed at the disposal of the Executive the means of exerting a powerful influence upon commerce. Not less to be feared are the possible dangers of paper currency, fatal, eventually, to the political freedom and industrial prosperity of the country. On the other hand, a bank is nothing more than a commercial establishment, and it does not seem expedient for the government to play the rôle of a merchant. A bank of issue presents the same disadvantages, besides that of attaching to the executive power a collection of interests, the development of which might, in time to come, be a cause of dissension and disturbance.
>
> It remained for it to decide either for or against regulated freedom.
>
> In theory, at least, absolute freedom is the better and more fruitful system and in Europe has produced excellent results. But we must bear in mind that the banking business is new and little known in Chile, that it might be badly managed by some establishments and sooner or later give rise to one of those shocks which distort public opinion and

bias its judgement. Inasmuch as laws governing banks, or rather against banks, have been passed in all countries of the world under the influence of similar occurrences, the government had no reason to suppose that Chile was sufficiently favoured by Providence to escape disruptions of this kind, and accordingly deemed it prudent to propose off-hand the precautionary measures which might rationally be taken for the purpose of preventing the abuses of banks.

The law was promulgated on July 23, 1860, and its principal provisions may be summarized as follows :

Any person qualified to conduct commercial operations might establish banks of issue. In order to exercise this right he would have to present to the Minister of Finance a declaration containing the name of the bank, the city or cities in which it was to be established, the amount of its capital, etc., as well as a copy of its regulations and statutes.

The President of the republic would have to verify the existence of the capital in such manner as he deemed expedient ; and to this end Article 6 provided :

It shall not be considered as bank capital but as capital effectively realized in lawful money of the country, in gold or silver bullion or in obligations and documents subscribed by persons known to be solvent in six months or less. Securities, ordinary bonds, mortgage bonds, and even public bonds, as well as notes, may guarantee the capital, but under no circumstances constitute it, and the proprietors or directors of a bank are forbidden to mention the said securities or notes as constituting its capital in the notices, advertisements, or announcements published by it, under penalty of a fine of one hundred *pesos* for each offence.

The banks are required to submit to the government a monthly balance-statement ; and in this statement there shall be noted separately the loans or discounts made to the managers, directors, or members of the administrative council.

The banks are forbidden to lend out any sum exceeding the amount corresponding to their own stock shares.

The President of the Republic, through the mediation of special agents, shall have to verify the books, funds, and portfolios of the banks of issue.

The notes shall be issued in the denominations of twenty, fifty, one hundred and five hundred *pesos*, and they shall constitute an executive title against the property and person of the proprietors or directors of the bank issuing them.

The banks shall be open for the transaction of business from 10 A.M. to 4 P.M.

The note issue of each bank is limited to 150 per cent. of its effective capital.

At the time of the approval of this law the triumph of the liberal party, comprising those who were opposed to the intervention of the state in the economic affairs of the country, was complete. But the members of Congress were so contaminated with the new ideas that the Committee on Finance of the Chamber of Deputies was not at all satisfied with this liberal regulation and demanded still greater freedom. As evidence of this we reproduce here a paragraph taken from the report of the said Committee: 'The Committee is thoroughly in accord with the capital ideas contained in the preamble of the bill. It believes that both theory and experience prove beyond doubt that absolute freedom in the matter of banks is the best and most fecund system.'

To sum up, the Chilean law of 1860 contained no effective limitation of the right to issue notes other than the provision that the issue should not exceed 150 per cent. of effective capital of each bank. The provision that the lowest denomination of the notes issued was to be 20 *pesos* must also be looked upon as a limitation to be sure, but as one of minor importance. As regards the provision relating to the inspection of the capital and resources of the banks by the government, in practice it did not signify anything; for when bad management led to the failure of a bank, the government, as a matter of fact, was one of the last to know about it.

CHAPTER XXI

THE MORTGAGE BANK LAW OF AUGUST 29, 1855

On August 29, 1855, a law was passed with the object of developing long-term credit in a manner advantageous to the landowners.

The law referred to created an institution called the *Caja de Crédito Hipotecario*, which was destined to facilitate the making of long-term loans on mortgage security, to be repaid in annual payments comprising both the interest and the amortization.

The operations of the institution in question consist of issuing certificates of credit, or, as they are called in commercial terminology, mortgage bonds, through the hypothecation of land, collecting the annual payments to be made by debtors, paying the interest corresponding to the holders of the mortgage bonds, and redeeming at par the mortgage bonds retired from circulation. In addition to the amount corresponding to the interest and amortization payments, the institution is authorized to collect from the debtor a commission not exceeding ½ per cent. per annum.

The *Caja de Crédito Hipotecario* can issue bills of credit only up to an amount corresponding to the value of the mortgage bonds constituted in its favour.

If a debtor fails to make the payment corresponding to the interest and amortization on time, the institution may collect a heavy penal interest, which the law in question fixed at 2 per cent. At the present time there is pending in Congress a bill which reduces this penal interest to 1½ per cent. per month, which is still a rather severe penalty.

When a debtor fails to make payment at the end of the period specified, the institution may solicit possession of the land mortgaged or demand that it be sold at auction.

The *Caja de Crédito Hipotecario* has as its manager or director a person appointed by the President of the republic, and its higher administration is placed in the hands of an

administrative council composed of the director and four members, two appointed by the Senate and two by the Chamber of Deputies. These councillors have to be chosen from among the debtors of the institution, and they receive no remuneration for their services.

Every six months the administrative council submits to the government a statement giving account of the institution's operations, and this statement is published in the *Diario Oficial*, the official organ of the government. In this same *Diario Oficial* the annual balance statement of the institution is likewise published.

The law in question authorized the establishment of the *Caja de Crédito Hipotecario* without specifying any important amount of capital for the commencement of its operations. From the very start, however, it was to use all its profits for the constitution of a reserve fund. Its profits were to consist of: (1) the commission of ½ per cent. collected from the debtors; (2) the interest proceeding from the payments made by the debtors every six months in advance, the institution making its interest payments twice a year and thus enjoying the interest on these funds for six months; (3) the penal interest collected from dilatory debtors; (4) the interest proceeding from the reserve funds as it accumulated. When the administrative expenses are deducted from these receipts, the remaining balance represents the net profits of the institution. Thus the state derives no profit from the institution, which merely allows its profits to accumulate in the reserve fund.

In chapter LIX we give account of the very favourable progress made by the *Caja de Crédito Hipotecario*. For the present we will merely add that the same law which authorized its establishment likewise authorized the establishment of other incorporated companies of a similar character (see chapter LIV). These companies, which in practice are called mortgage banks (*Bancos Hipotecarios*), enjoy the same privileges and are subject to the same restrictions as the *Caja de Crédito Hipotecario*.

CHAPTER XXII

THE FIRST CREDIT CRISIS

Economic crises characterized by a scarcity of food products due to loss of crops, and resulting in widespread privation and misery, have occurred from the remotest times. Disturbances of the established economic order which have completely ruined many persons, have also been brought about by other causes, such as earthquakes, wars, etc. In the history of the colonial period of Chile we find innumerable complaints and lamentations regarding economic conditions. On one occasion the farmers were unable to export their products, or else were imposed upon by the merchants of Lima, who offered very low prices for them, thereby creating a very difficult situation for this branch of economic activity. On another occasion the mining regions suffered the critical effects of the paralysation of business. At still another time, as in 1878, the merchants were called upon to bear the grave consequences of so great an excess of merchandise imported from Spain that prices dropped to the lowest level and thus forced numerous establishments in Valparaiso and Santiago into bankruptcy.

But economic disturbances having the characteristics of modern ' panics ', in which the expansion of credit has given the economic life a special aspect—that is, economic crises preceded by a period of extraordinary prosperity and excessive speculation, and characterized by a considerable increase in interest rates, restriction of credit, a pronounced fall of stock exchange quotations resulting from forced sales made by debtors, business failures, paralysation of the spirit of enterprise, and general commercial and industrial stagnation—economic crises of this kind did not occur in the colonial period or in the first fifty years of the national independence.

The first crisis of this kind that occurred in Chile was that which followed the period of great prosperity between the years 1848 and 1856. In 1848 important silver deposits were dis-

covered in Atacama which had the effect of producing a period of extraordinary wealth, first in Copiapo, and shortly afterwards, by repercussion, in the interior of the country. At this same time, moreover, the extraordinary discoveries of gold in California were made, the advantages resulting therefrom having made themselves felt even in Chile, whose agricultural industry found in California a splendid outlet for its products.

The banks, as we have seen, began to be founded in 1854; and in 1855 the *Caja de Crédito Hipotecario* was created, this giving a pronounced impetus to the expansion of credit and the investment of capital. The economic activity carried along by credit had already begun in Chile.

After 1856 the economic situation changed for the worse. In 1858 the famous mines of Chañarcillo were in a state of complete decadence. At that time the government decided upon the expedient of lending to individuals the proceeds of a loan which it had negotiated in London for the construction of railways; and in this way it used, in the years 1857, 1858, and 1859, a large part of its borrowed capital. This led to a notable though temporary improvement in the situation, but in 1860, when efforts were made to collect the outstanding loans, the crisis manifested itself anew and in a more serious form. The year 1860, moreover, was very bad for agriculture, the exports of agricultural products for that year having decreased to one-half of what they had been in other years. Disagreements relating to internal policy gave rise to a revolution which was suppressed in 1859; and in that same year occurred the grave revolt of the Araucanos, a semi-civilized people inhabiting a large region in the southern part of the country.

In 1861 the crisis was already acute, compromising even the public finances. We deem it opportune to reproduce here a description of the situation as published in an article in *El Mercurio* of July 19, 1862:

> In the midst of a crisis the first shocks of which have scarcely passed —a crisis the disastrous effects of which, manifesting themselves in

the form of a paralysation of commerce and industry, a general decline of values without likelihood of recovery, and a fearful panic characterized by an unprecedented distrust, we find ourselves confronted with a situation which is rendered all the more difficult by the fact that we have no precise knowledge of its scope. Illusions, therefore, and nothing but illusions, are the pretensions of some persons who are unwilling to believe that the crisis is not yet over; on the contrary, it is still going on in society even now, and every day we hear of some new failure, of some new fortune swept away and reduced to nothing. . . . The abuse of credit having been one of the causes of the crisis, the granting of credit has naturally been restricted as much as it was expanded before. We have passed from one extreme to the other, and in so doing we have dealt the death-blow to industry; for industry cannot live without capital. . . .

As regards the causes of the serious economic crisis in question, we likewise deem it opportune to reproduce here a few sentences taken from a special pamphlet published in Valparaiso in 1861 by Señor don Marcial Gonzalez:

Having studied this situation and considered its principal phases, we have become convinced that it arises principally from two causes—the one natural, and the other artificial. The loss of the markets of California and Australia, the decline of copper, the rise of interest rates due to the scarcity of ready capital, the exhaustion of the silver mines, and the stagnation of the agricultural industry constitute the first of these causes; and the abuse of credit, the bad management of industrial enterprises, the lack of ready cash, the unrestrained indulgence in luxuries, the militarization of the country, the excessive employment of help, and the unnecessary increase of fiscal salaries constitute the second.[1]

The majority of these factors undoubtedly had something to do with the origin of the crisis. The increased expenses of the government and the 'militarization of the country' were to a large extent due to the necessity of maintaining the public order and subjugating the indigenous peoples. As regards the loss of our markets for agricultural products, this was a factor which caused considerable alarm in 1860, but in 1861 the exports began to increase again. As regards the abuse of credit,

[1] Marcial Gonzalez, *Estudios Económicos* (Santiago, 1889).

this was undoubtedly a highly important factor in the origin and in the progress of the crisis.

The situation gradually improved, however, and the years following 1867 were sufficiently prosperous for the favourable development of agriculture and of the copper and silver mining industry.

CHAPTER XXIII

MONETARY AND BANKING DEVELOPMENTS UP TO THE CRISIS OF 1878

In 1865 the *Banco Nacional de Chile* [1] was founded with a subscribed capital of 7,000,000 *pesos* divided into 7,000 shares of 1,000 *pesos* each; and with it was incorporated the Bank of Chile, the latter increasing its capital to 9,000,000 *pesos*. The *Banco Nacional de Chile* was the most important bank in the country with respect to both the amount of its capital and the amount of its deposits and loans. Although its name would give it the appearance of being a bank of issue, as a matter of fact it was merely an incorporated company of an absolutely private character, like other banking institutions of its kind.

In 1866 the *Banco de Valparaiso* modified its statutes so as to bring them into accord with the law of 1860; that is to say, it converted itself into a bank of issue.

In September 1865 occurred the war with Spain. This produced a state of financial instability, that is, an extraordinary increase of fiscal expenditures, on the one hand, and a certain monetary restriction, on the other hand, the latter soon making itself felt in the form of a movement on the part of bank depositors to withdraw their funds.[2]

The law of September 24, 1865, authorized the government

[1] Its statutes were approved by a decree of July 12, 1865.

[2] The deposits of the *Banco de Valparaiso*, which was the most important bank existing at that time, since the *Banco Nacional de Chile* had scarcely begun its operations, amounted to 3,300,000 *pesos* in July 1865, and dwindled down to 2,203,000 *pesos* in December of that same year.

to concede to the *Banco Nacional de Chile*, which had begun its operations on the first of that month, the right to issue notes up to 50 per cent. of its subscribed capital, ' with the understanding that it shall make the necessary provisions for the proper security of its notes ' (Article 1). The notes were to be inconvertible until January 31, 1866 (Article 2). The law of 1860 prohibited the issue of notes of denominations smaller than 20 *pesos*; and this new law of 1865, modifying the provision in force, authorized the issue of notes of denominations as small as 1 *peso*. The notes issued were to be receivable in payment of taxes and other public dues. The law did not declare them legal tender, but merely provided that they were to be inconvertible, as had been done in England in 1797, when the notes issued by the Bank of England were declared inconvertible but not given the quality of legal tender.

On December 20, 1865, there was passed a new law which extended the period of inconvertibility to six months after the termination of the war with Spain or, at the latest, to June 30, 1867. This law also conceded certain privileges to the banks of issue, such as that of making their notes receivable by the government in payment of taxes, duties, etc. In return, however, the government demanded that they lend it, without interest, one-third of the notes they issued. The funds which the government was able to obtain on loan in conformity with this provision were so small that the law had to be abrogated and replaced by another authorizing the government to borrow what it needed to make up the deficit. The new law, which was passed on July 20, 1866, provided that the bank or banks which loaned the government from four to six million *pesos* were to enjoy certain privileges, such as that of making their notes receivable in payment of public dues, etc., for a period of twenty-two years. The government, on its part, bound itself not to permit the issue of legal tender paper by any other institution. The bank notes, which were loaned to the government up to the amount specified, were to enjoy the privilege of inconvertibility until six months after the conclusion of the war with Spain or, at the latest, until June 30, 1867. Under

the authority of this law the government could contract for the loan it needed.[1]

The monetary situation soon adjusted itself. The inconvertibility of the bank notes was maintained only until August 31, 1866, after which they continued to circulate as convertible notes. The rate of exchange suffered no decline whatsoever during the period of inconvertibility brought about by the war with Spain. It was undoubtedly a very happy example of inconvertible paper.[2]

The years 1867–73 were marked by economic prosperity and expansion of credit. Chilean miners discovered the famous mineral deposits of Caracoles in the Province of Antofagasta, which then belonged to Bolivia; and between 1872 and 1873 these deposits produced a steady stream of silver, most of which flowed into the coffers of Chilean promoters and capitalists. These discoveries gave rise to a veritable fever of mining enterprise, speculation, and abuse of credit.[3]

[1] The loan contract between the government and the banks was approved by a decree of August 8, 1866, according to which the loan was apportioned as follows:

	Pesos
Banco Nacional de Chile	2,805,000
Banco de Valparaiso	510,000
A. Edwards y Cía.	510,000
MacClure y Cía.	510,000
Ossa y Cía.	204,000
Total	4,539,000

The government delivered to the contracting banks bonds bearing interest at 8 per cent. if paid in Chile and at 7 per cent. if paid in England. These bonds were to be delivered to the banks at the rate of 100 *pesos* in bonds for each 85 *pesos* in money loaned by them. The interest rate, as will be seen, was rather high.

[2] During the war the rate of exchange (at 90 days' sight) fluctuated as follows:

October 31, 1865	44*d.*
December 9, 1865	46·5*d.*
January 11, 1866	46·5*d.*
March 10, 1866	47·25*d.*
May 1, 1866	47·25*d.*
July 7, 1866	45·25*d.*

[3] B. Vicuña Mackenna, *El libro de la plata* (Santiago, 1882), p. 387: 'As regards the number of incorporated companies that were organized under a thousand fantastic names for the exploitation of the mineral deposits of Caracoles, or rather for the exploitation of the covetousness and credulity of those who were not professional miners, suffice it to say that there were no less than twenty-nine of them

At this point we deem it opportune to reproduce an abstract of the balance of the banks on December 31, 1869.

BALANCES OF BANKS IN CHILE, DECEMBER 31, 1869[1]

	Capital and reserve	Deposits	Notes issued	Cash on hand	Loans	6 months' profits
Banco Nacional de Chile	2,395,000	10,259,014	2,704,424	445,514	12,627,033	188,945
Banco de Valparaiso .	1,312,500	3,451,696	543,060	292,762	4,516,804	101,940
Agrícola . . .	812,856	268,111	60,100	21,151	986,450	38,569
Ossa y Cía. . .	628,157	1,199,511	221,785	56,906	2,337,989	24,947
A. Edwards y Cía. .	500,000	4,626,656	591,500	154,519	5,972,622	71,983
MacClure y Cía. . .	508,378	1,611,195	507,300	70,849	1,630,057	49,235
Montenegro y Cía. .	100,000	76,785	7,191	62,619	114,167	1,912
Total . .	6,256,892	21,492,972	4,635,360	2,104,324	28,185,124	477,533

Meanwhile, after 1872, as the European countries and the United States suspended the free coinage of silver to adopt the single gold standard, there was brought about a pronounced depreciation of silver with respect to gold. The following table shows the ratio of the two metals in the years 1872–9:

1872 . .	15·56 : 1	1876 . .	17·72 : 1
1873 . .	15·95 : 1	1877 . .	17·24 : 1
1874 . .	16·05 : 1	1878 . .	17·96 : 1
1875 . .	16·54 : 1	1879 . .	18·31 : 1

Inasmuch as by the law of 1851, which was not modified by that of 1860, the legal ratio in Chile was 16·39 : 1, there was a tendency toward the exportation of gold, with the result that in a short time the monetary circulation was reduced to silver coins. In fact the Chilean monetary system was converted into silver monometallism, although in theory the double standard was still in force. During this period the rate of exchange was directly influenced by the value of the silver.

and that their combined capital totalled 13,223,000 *pesos*, all of which was converted into ruin and discredit.' For those times such a sum constituted in *pesos* of 45*d.* was considerable.

[1] The figures represent paper *pesos* with the *centavos* omitted.

CHAPTER XXIV

THE CRISIS OF 1878

In 1878 interest rates began to go up. The 8 per cent. bonds of the *Caja de Crédito Hipotecario*, the principal mortgage bank in Chile, were quoted in 1872 at 104, in 1873 at 100, in 1874 at 96, in 1876 at 93, and in 1878 at the unprecedented minimum of 76. Meanwhile the rate of interest on bank loans, which was 8–9 per cent. in 1872, rose to 12 per cent. in 1878.[1]

The fiscal revenues, which had totalled 16,350,000 *pesos* in 1875, totalled only 13,845,000 *pesos* in 1877.

The mining industry suffered the consequences of a great decline in the price of copper, namely, from £108 sterling per English ton in 1872 to £53 sterling per English ton in 1879. Inasmuch as the annual production of copper in Chile at that time was from forty-five to fifty thousand tons, it will be easily understood that the copper mining industry was of great importance with respect to the economic life of the country. The price of silver also suffered a decline of approximately 15 per cent. between the years 1872 and 1878.

Besides all this the Chilean enterprises established in the Province of Antofagasta were placed in a very unfavourable situation by reason of the hostile attitude of the Government of Bolivia.

In 1878 the crisis reached a very acute stage. The monetary stock was decreasing by reason of the exportation of gold and

[1] The following table gives some security quotations for August 1878, that is, in the most acute stage of the crisis :

	Per cent.
3 per cent. government bonds	30
9 per cent. government certificates	74
8 per cent. bonds of the Caja de Crédito Hipotecario	76
7 per cent. bonds of the Caja de Crédito Hipotecario	66
5 per cent. bonds of the Caja de Crédito Hipotecario	59
8 per cent. bonds of the Banco Garantizador de Valores	70
Stock shares of the Banco Nacional de Chile	50
Stock shares of the Banco de Valparaiso	50

silver coins.[1] The high interest rates, the decline of security values, the restriction of credit, and the other characteristics of economic crises manifested themselves in an alarming manner.

The following table shows the status of the banks in the first half of the year 1878:

BALANCES OF BANKS IN CHILE, JANUARY 1–JUNE 30, 1878

Date	Paid-in capital and reserve	Deposits	Notes in circulation	Cash on hand
December 31, 1877 .	20,633,995	41,200,725	8,153,700	4,639,302
June 30, 1878 . .	20,906,492	37,173,546	8,349,089	3,449,121

The situation was seriously complicated, moreover, by the fact that the status of the public finances was no longer favourable. The government had undertaken important public works and found that its revenues were insufficient to cover its expenditures; and it saw no other way of meeting its deficits save by recourse to public loans. In view of the general business depression, however, it will be readily understood that it was no easy matter for the government to raise funds under ordinary conditions, so that the loans it issued had to be characterized by extraordinary concessions, which further complicated the monetary situation.

On June 27, 1879, there was promulgated as a law of the republic a loan contract closed with nine of the eleven banks in existence at that time, providing that they were to lend the government the sum of 2,250,000 *pesos* and to receive in exchange treasury certificates bearing interest at 9 per cent. and redeemable in two years.

But, owing to the unfavourable status of the banks of credit, which were suffering the consequences of the grave economic

[1] The following table shows the quantity of gold and silver exported in the years 1874–8:

	Pesos
1874 . . .	1,500,000
1875 . . .	3,700,000
1876 . . .	3,600,000
1877 . . .	1,400,000
1878 . . .	3,300,000

and monetary crisis through which the country was passing, as also to the excessive expansion of credit in the preceding years, they would not have subscribed to the government loan except on the basis of certain advantageous concessions. In conformity with the aforesaid contract, accordingly, the government bound itself to receive a quantity of notes issued by the said nine banks equal to four times the sum loaned, with the understanding that this amount receivable by the government might be increased up to 12,000,000 *pesos*. The privilege thus conceded to these banks was to last until August 7, 1888.

The government bound itself, moreover, 'not to issue, or permit to be issued, legal tender bills of credit or bank notes which are not redeemable in stamped silver or gold currency.'

The security which the banks gave the government for the receipt of their notes was a deposit of some of the treasury certificates which the government had granted for the loan—a security representing only 25 per cent. of the amount of the issue.

Thus the banks were surrounded, on the one hand, by a public which was eager for money and at the same time full of distrust, and on the other hand by a government which was having recourse to its reserves for the covering of its deficits. Moreover, it was impracticable for them to recover the funds which they had invested in its loans, on account of the critical condition of private business. On the other hand, it was no easy matter for the banks to recover loans granted in years of speculation and abuse of credit, such as the preceding years had been.[1]

[1] A. Ross, *Los Bancos de Chile* (Valparaiso, 1866): 'The banks made all kinds of concessions to their constituents in order to insure the circulation of their notes. They made remittances of notes to distant points without charge for transportation, and frequently they made thirty-day loans without interest, all with the object of conserving silver for other purposes and replacing it in circulation by their notes. To the end of keeping these notes afloat, they established branch offices for that one and only purpose.

'Not satisfied with this, moreover, they went further and founded new banks, such as the *Banco de la Alianza*, for the sole and exclusive purpose of providing with

The loan contract of 1878, which determined the bases of this credit which the banks were conceding to the government, was able to win the approval of Congress both because of the critical status of the public finances at that time and because of the fact that, inasmuch as the notes of two banks were already receivable by the government, it was not considered dangerous to extend the same privilege to a few more; and since people were generally confident that the notes would always be redeemable in metal, they attached no great importance to the imminent danger of their being declared inconvertible.

CHAPTER XXV

THE LAWS OF JULY 23, 1878, AND SEPTEMBER 6, 1878, DECLARING THE BANK NOTES INCONVERTIBLE

After this loan the metallic reserve of the banks decreased more and more. The exportation of coins continued, and bank depositors, seeing the danger increase, began to withdraw their funds.[1]

By the month of July the situation was already alarming. Before the public was given an exact account of it, however, the National Congress was convened in an extraordinary and

more notes the banks which had already forced into circulation as many as the law permitted them to.

'Such eagerness to circulate notes, leading the banks, as it did, to make all kinds of concessions to the debtors, had as a natural consequence the making of unsecured and excessive placements which could not, in case of need, be promptly collected. They also made many mortgage loans, which are difficult and slow to collect and consequently disadvantageous for banks which have to pay a large number of notes at sight.

'It will be understood that the object of all this was to enable the banks to set apart sufficient funds for the payment of good dividends to their shareholders, who satisfied in this way, for the rest, allowed them entire freedom of action.'

[1] The *Banco Nacional de Chile*, which had the largest capital of all the banks, was one of those which were very hard pressed, as indicated by the following figures showing the decrease of its deposits and cash on hand:

Date of balance	Deposits	Cash on hand
December 31, 1877 . .	18,520,648 *pesos*	3,343,370 *pesos*
June 30, 1878 . . .	15,060,835 ,,	1,895,506 ,,
December 31, 1878 . .	11,321,284 ,,	(Paper money)

secret session, held on the night of July 22, for the purpose of approving a bill presented by the Executive, with an urgent appeal for its immediate passage, providing for the establishment of the inconvertibility of the bank notes in circulation. The matter was indeed urgent; for it is certain that if the session had been postponed until the following day, the time lost in the discussion of the bill would have been sufficient to have made it necessary for all the banks, victims of a panic among their depositors, to close their doors.

The National Congress, which numbered among its members several illustrious men of considerable discretion, found itself confronted with the hard necessity of approving an inconvertibility bill presented by the government in a dilemma, the alternative being the failure of all the banks. There was no time to be lost in discussion; for already the word inconvertible was being pronounced by the government, and this was sufficient to open the eyes of the entire public. It was necessary for the banks to commence on the following day to make their payments in inconvertible notes.

The *régime* of banks of free issue did not prevent the paper notes circulating in Chile from being declared inconvertible, as was claimed by the politicians who opposed the foundation of a bank of issue. The question is, then, Would a central bank of issue have prevented this declaration of inconvertibility?

It is practically impossible to answer this question, for it would have depended, of course, upon the prudence and competence of its administration. There is no doubt that the free private banks were imprudent in their operations and made use of the right to issue notes without due consideration of the dangers involved therein, as if it were a means provided by the government to enable them to increase their profits. Of the eleven banks in existence at that time only one, perhaps, would have been able to redeem its notes in specie.

On July 23, 1878, twenty-six days after the loan, the law declaring the bank notes inconvertible was promulgated.

According to this law the nine banks which had subscribed to the loan of 2,525,000 *pesos* were conceded the privilege of declaring their notes inconvertible—the same notes which, according to the law which authorized this loan, were receivable in payment of public dues and represented a sum of 10,000,000 *pesos*. The period of inconvertibility was to be one year, after which the circulation of metallic currency was to continue. To guarantee their issues, the banks were to deposit mortgage bonds or credits against the state, and at the same time were to pay the government interest at the rate of 4 per cent. per annum on the amount of their notes in circulation. Under these conditions the government was to guarantee the redemption of the notes in specie at the end of the year specified. The *Banco de Valparaíso* and the *Banco de Concepción*, which were the only banks that had not participated in the loan, were to enjoy the privilege of inconvertibility only on condition that they entered their subscriptions under the same conditions as the other banks; but the former was adjudicated the sum of 3,000,000 *pesos*, and the latter the sum of 500,000 *pesos*, as a maximum issue of inconvertible notes.

Such, accordingly, was the general nature of the law of July 23, 1878. As will be seen, the quantity of inconvertible notes which each bank was authorized to issue was definitely specified on the basis of the amount which they had subscribed to the government loan of 2,525,000 *pesos*. This was perhaps the chief reason why the law failed to win the approval of some banks and numerous members of Congress, who deemed it neither advantageous nor just that the basis of the right of issue should be an arbitrary amount up to a certain point, and not an amount corresponding to the paid-in capital of each bank.

After a long discussion regarding the reformation of this law, the question as to the amount which each bank was to issue was settled by a law drawn up on the basis of an agreement concluded between the banks and the government.

The new law, which was promulgated on September 6, 1878, fixed the maximum issue of inconvertible notes at

15,010,000 *pesos*, to be apportioned among all the banks by agreement.[1]

The banks, furthermore, were to guarantee their inconvertible issues by depositing in the treasury vaults gold or silver bullion, credits against the government, bonds of the *Caja de Crédito Hipotecario* or other mortgage banks, or municipal bonds. 'The President', Article 3 provided, 'shall fix the rate at which the credit documents specified shall be received, taking the market quotations as a basis.'

After July 30, 1879, the banks were to deliver monthly to the mint, in order that they might be cancelled and destroyed, 5 per cent. of their outstanding inconvertible notes, or rather to replace the deposit guarantee of securities, just referred to, by gold or silver at the rate of 4 per cent. per month (Article 7).

The inconvertibility of the notes was to cease on May 1, 1880 (Article 8).

The banks were to pay monthly to the government a rate of interest equivalent to 4 per cent. per annum on the maximum issue registered as inconvertible, but with the understanding that there should remain exempt from this interest payment that part of the note issue which was guaranteed by gold or silver.

[1] The following table shows the apportionment of the inconvertible notes among the various banks:

Bank	Paid-in capital	Inconvertible notes
Nacional de Chile	4,000,000	4,400,000
Valparaiso	6,150,000	4,000,000
A. Edwards y Cía.	1,500,000	2,160,000
D. Matte y Cía.	1,000,000	800,000
Alianza	1,000,000	600,000
Agrícola	1,800,000	600,000
Concepción	400,000	500,000
Mobiliario	1,125,000	400,000
de la Unión	182,588	300,000
Ossa y Cía.	500,000	250,000
Consolidado	1,500,000	1,000,000
Total	19,157,588	15,010,000

The *Banco de Valparaiso* and the *Banco de Concepción*, in order to enjoy the benefits of this law, had to lend the government their quota corresponding to the loan to which they had refused to subscribe.

The maximum of the new issue was fixed, accordingly, at 15,010,000 *pesos*, which sum was apportioned among all the banks by agreement. Since the banks were legally authorized to issue convertible notes up to 150 per cent. of their capital, and since their combined capital totalled 19,157,588 *pesos*, it follows that they could issue 28,736,382 *pesos* in notes, whereof 15,010,000 *pesos*, according to the law of September 6, were inconvertible. The idea of the government was that the inconvertible notes should serve as metallic currency and circulate in conjunction with the convertible notes, the banks remaining under obligation to exchange the convertible note for the inconvertible note upon demand.

When the inconvertibility of the notes was declared, there were in circulation, according to the bank statement of 1878, 8,349,089 *pesos* in bank notes convertible at sight; and the banks had only 3,449,121 *pesos* in coin and bullion. Thus the law of September 6 increased the funds of the banks considerably.

The inconvertibility was to cease, not on August 31, 1879, as the abrogated law of July 23, 1878, had provided, but on May 31, 1880; that is, the new law deferred for nine months the date for the return to the metallic *régime*. We may ask, Would the banks have been able to redeem their notes on May 31, 1880? England began its *régime* of inconvertibility by declaring its bank notes inconvertible for a period of fifty-two days. Two days before the expiration of this period it was prolonged; in this way a measure that was adopted as a purely temporary expedient was prolonged for twenty-four years in one of the most powerful countries in the world. Would something similar have happened in Chile? It is to be feared that it would have.

At the end of the year 1878 ill winds began to blow into Chile from the neighbouring country of Bolivia. The political horizon grew more and more threatening until finally, on February 14, 1879, a body of Chilean troops had to disembark at the Bolivian port of Antofagasta in order forcibly to prevent the sale or expropriation of important Chilean properties

ordered by the Government of Bolivia. With this belligerent act the commencement of the war with Bolivia was a *fait accompli*. A few days later, moreover, Chile became convinced that Bolivia was not her only enemy. The public and the press began to give account of an alliance between Bolivia and Peru, whereupon the Government of Chile called upon the Government of Peru to define its attitude. Peru replied by announcing its treaty of alliance with Bolivia, with the result that on April 5, 1879, the Government of Chile, in accord with the National Congress, declared war against its two enemies.

CHAPTER XXVI

THE MODIFICATION OF THE ECONOMIC CONDITION OF CHILE CAUSED BY THE DECLARATION OF WAR AGAINST PERU AND BOLIVIA

The declaration of war alone initiated an economic period entirely different from that preceding, immediately relegating the crisis into oblivion. Immediately after the declaration of war, the National Congress, on April 10, 1879, passed a law authorizing the government to issue, either directly or through the mediation of the banks, the sum of 6,000,000 *pesos* in the form of legal-tender notes. After this authorization the government sought to enter into an agreement with the banks whereby they would issue the notes and lend them to the government, without any charge other than that corresponding to the insignificant cost of printing and transporting them. Inasmuch as the public was accustomed to bank notes, it was held desirable to continue their circulation. But since no agreement could be reached with the banks in regard to the matter, the government itself decided to take charge of the new issue of notes, for which reason they were called ' fiscal notes ', that is, treasury notes. It was intended gradually to replace the legal-tender bank notes already in circulation by these treasury notes, so that at the end of a certain time the

latter would be the only inconvertible notes of legal tender in circulation.

According to the law of September 6, 1878, as we have seen, the inconvertibility of the bank notes was to cease on May 1, 1880. What, then, would be the situation of these treasury notes after May 1, 1880? Since their inconvertibility was not yet to have terminated on that date, it was clear that the banks could not return to the redemption of their notes in specie, but that they would at the most be obliged to exchange them for treasury notes, which after May 1, 1880, were to become the only lawful money in circulation.

The receivability of the bank notes by the government in payment of all public dues, according to the law of June 27, 1878, was to last, as we have seen, until August 7, 1888.

At the beginning of the war the expedient of issuing notes as a means of providing the government with the funds it needed, was not a very simple undertaking, because neither the credit of the government nor the monetary needs of the country justified it. The declaration of war brought the rate of exchange down to 38*d.*; after the first issue, moreover, it fell to 32*d.* and thereafter continued to fall at an alarming rate. This was sufficient evidence that the Government of Chile could not proceed very far with the issue of paper money without increasing its resources, and without inflicting decisive defeats on the enemy. Thus the treasury notes had to be combined with other expedients, such as taxation and even the suspension of the amortization of the public debt in accord with the European bondholders.

On August 26, 1879, there was passed another law authorizing a second issue of treasury notes to the amount of 6,000,000 *pesos*, this bringing the total up to 12,000,000 *pesos*.

Meanwhile, the rate of exchange fell lower and lower, until it reached 24*d.* in September. The definitive outcome of the war was still shrouded in darkness, and in this state of uncertainty things could not progress otherwise.

The Government of Chile, apprehensive lest the rate of exchange should go down so far as to result in the exportation

of the subsidiary coins in circulation, ordered some notes of small denominations printed in the United States to replace them.

The first events of the war, up to the month of September 1879, although for the most part favourable to the Chilean arms, were not sufficiently decisive to inspire the public with confidence. On the sea, moreover, the Peruvian battleship *Huascar*, taking advantage of its superior management and greater speed, was toying with the Chilean fleet and by its constant forays was maintaining a certain alarm in Chile and a certain indecision abroad.

On October 8, 1879, the maritime power of Peru collapsed with the capture of the *Huascar*, whereupon Chile, having control of the sea, continued her invasion of the enemy territory with such success that by the end of the year she was in possession of the rich nitrate provinces of Tarapaca.

The rate of exchange, which had fallen to 24·5*d.*, rose rapidly merely on account of the capture of the *Huascar*, and, with the announcement of new land victories, it reached 37*d.* in less than three months. In this first period of the war the rate of exchange was regulated by the moral effect, so to speak, of the outcome. As long as nothing decisive happened, it continued to go down; but with the news of victories that cleared the horizon, it rose rapidly. Here, accordingly, the financial and economic situation of Chile changed. The war had temporarily suspended the crisis, and the first victories of the Chilean arms initiated a period of prosperity.

The national revenues were considerably increased, as is shown by the table reproduced in chapter LXIV, by the acquisition of the new nitrate deposits. In 1879 the revenues amounted to 15,708,246 *pesos*, and in 1880 they increased to 25,941,977 *pesos*, whereof 8,000,000 *pesos*, in round numbers, proceeded from the nitrate industry and the customs revenues of the ports under military occupation.

In the year 1880, the second year of the war, two issues of government notes were authorized—the first on January 4 for 4,000,000 *pesos*, and the second on August 19 for 12,000,000 *pesos*. In making this second issue the government hit upon

the prudent idea of receiving in trust any sum withdrawn from circulation up to 12,000,000 *pesos*, paying interest thereon at the rate of 5 per cent. per annum. This was a measure which tended to prevent the depreciation of the notes issued, giving the 12,000,000 *pesos* the character of an interest-bearing loan.

During the year 1880 the war continued actively. The armies of Peru and Bolivia had concentrated themselves in Tacna, a Peruvian province which became the theatre of the second invasion campaign of the Chilean army. The outcome of this campaign was also favourable to Chile.

Finally, in the first part of the year 1881, after a third campaign, the capital of Peru fell into the possession of Chile, and its capture may be said to have terminated the active and decisive part of this terrible war. The rate of exchange was strongly influenced by the events of the war from 1879 to 1881.

In January 1881 a new issue of 12,000,000 *pesos* in government notes was authorized, but there was no need of making the issue for the reason that the war terminated in favour of Chile.

The cost of the war, according to the computations of the Minister of Finance, did not exceed 75,000,000 *pesos*, a sum which was more than compensated by the results obtained. The financial situation of the government, as well as the economic situation of the country in general, was notably improved.

CHAPTER XXVII

THE MONETARY AND BANKING SITUATION OF CHILE AFTER THE WAR AGAINST PERU AND BOLIVIA

In 1882 the note circulation was :

	Pesos	*Pesos*
Total issue of treasury notes	28,000,000	
Treasury notes retired from circulation in the mint	9,794,900	
Actual circulation of treasury notes		18,205,100
Registered bank notes		12,804,100
Total note circulation		31,009,200

The hostilities came to an end in 1882, but the treaty of peace was not signed until 1883. Meanwhile, the economic and

financial situation of the country had undergone a notable improvement. The rate of interest on bank loans declined from the 12 per cent. it had reached before the war to 5 per cent. and 6 per cent. in 1882. The debtors were able to take advantage of the altered situation for the purpose of converting their old obligations into new ones carrying a lower rate of interest. The price of rural and urban properties rose considerably, so that many landowners, who shortly before would have been unable to pay their debts by selling their holdings, afterwards found themselves with a considerable balance in their favour. The rise of prices, coupled with the decline of rates of interest, the expansion of credit, and the good market which the new nitrate provinces created for agricultural products, brought about a notable improvement in the status of the agricultural industry.

It is true that the wealth of the great nitrate deposits which came into the possession of Chile was largely in the hands of foreigners, so that the country was deprived of a large part of the revenue therefrom. In spite of this, however, besides the nitrate deposits which remained in the possession of native or naturalized Chileans, and besides the revenue which the government derived from the export duty levied upon nitrate, commerce, industry, and the national working class benefited greatly by the acquisition of the new territory.[1]

At the end of the year 1882 the rate of exchange was quoted at 36·5*d.*—which was very close to the par value of the silver *peso*, because, since at that time silver was quoted in London at 50*d.* per ounce, the Chilean *peso* was worth very little more than 38*d.*

A glance at the table showing the fiscal revenues and

[1] From the Memorandum of the Minister of Finance of 1894 we extract the following statement setting forth the profit derived by Chile from the nitrate industry, despite the fact that it was largely in the hands of foreigners: 'The net profit per quintal of nitrate would be 1 shilling (English money). The balance of price charged per *quintal*, that is, 4 or 5 shillings, would remain in the country by reason of its being used for the payment of wages, the purchase of food and fuel, etc., as well as for the payment of the export duty levied by the government. Of the production of 1894, moreover, some 36 per cent. belonged to Chileans or else to naturalized foreigners.'

expenditures (chapter LXIV) reveals the pronounced increase undergone by them at that time. The ordinary and contingent revenues more than doubled in the period between 1878 and 1882, and this taking into account the depreciation of the paper currency.

As regards the country's foreign trade, moreover, a glance at the corresponding table (chapter LXIII) reveals an equally pronounced increase with respect to both the exports and the imports.

The business of the banking institutions, moreover, likewise underwent a pronounced increase, as shown by the following table :

PAID-IN CAPITAL, DEPOSITS, AND LOANS OF BANKS, 1879–94[1]

Year	Paid-in capital	Deposits	Loans
1879	14,990,000	37,253,000	42.275,000
1880	15,006,000	65,650,000	57,663,000
1881	15,021,000	60,631,000	59,961,000
1882	14,143,000	50,844,000	59,984,000
1883	15,274,000	56,349,000	68,547,000
1884	15,720,000	61,479,000	73,212,000
1885	19,092,000	59,200,000	75,994,000
1886	20,910,000	62,814,000	73,349,000
1887	22,351,000	73,348,000	85,557,000
1888	23,675,000	89,023,000	103,312,000
1889	25,117,000	90,350,000	126,192,000
1890	30,476,000	92,209,000	117,037,000
1891	33,011,000	131,472,000	130,659,000
1892	37,188,000	133,489,000	145,915,000
1893	40,914,000	120,267,000	147,182,000
1894	43,514,000	124,499,000	147,913,000

As regards the circulation of bank notes, the reader will find the pertinent statistics in chapter LVI. In the table there reproduced we note an increasing development of banking operations up to 1894. It is necessary to bear in mind, however, that, although part of this development was real and effective, to some extent, also, it was merely apparent, since it was due, especially in the years following 1890, to the depreciation of the paper currency.

[1] The figures represent paper *pesos*.

CHAPTER XXVIII

THE CONVERSION LAW OF MARCH 14, 1887

In 1884 the rate of exchange began to decline more rapidly. Preoccupied with this situation, the government commenced gradually to diminish the circulation of treasury notes by means of economies in the budget. But as fast as the circulation of treasury notes decreased, the circulation of bank notes increased, as is shown by the following table:

Issue of Notes, 1882–6

Year	Bank notes	Treasury notes
1882 . .	11,887,023	27,250,000
1883 . .	12,304,686	26,927,966
1884 . .	12,458,211	26,913,297
1885 . .	13,512,835	26,687,916
1886 . .	16,713,133	25,318,223

In 1887 the steady fall of the rate of exchange completely absorbed the public attention. At the beginning of that year the *peso* was quoted at *23d.*, so that the silver *peso* containing 25 grm. of metal $\frac{9}{10}$ fine was worth approximately $35\frac{1}{2}d.$[1] Various bills had been submitted to Congress to accelerate the retirement of the paper money in circulation; and the government, falling in with this trend of ideas, presented a bill to prepare for their conversion. The more important provisions of this bill, which was passed and promulgated as a law on March 14, 1887, were the following:

(*a*) Monthly retirement and cancellation of 100,000 *pesos* of treasury notes, until the outstanding circulation of them was reduced to 18,000,000 *pesos* (Article 1).

(*b*) Increase of the custom duty to an extent not exceeding 15 per cent. of the existing duty (Article 2).

(*c*) Accumulation of silver bullion to form a conversion fund amounting to 1,200,000 *pesos* the first year and 1,500,000 *pesos* the following years (Articles 3 and 4).

[1] The depreciation had to be in relation to the silver *peso*, since the paper money corresponded to the bimetallic *régime*; and if it had not been for the declaration of inconvertibility, the silver *peso* alone, which was of less value than the gold *peso*, would have remained in circulation.

(*d*) Some provisions were designed to restrict and guarantee the issues of bank notes. The bank law of July 23, 1860, was modified so as to decrease to 100 per cent. of their capital the amount of notes which the banks might issue (Article 6). It was also provided that the banks were to deposit with the government a guarantee equivalent to 50 per cent. of the amount of their issues, the said guarantee to consist of bonds of the national debt or of certain municipalities, or else of bonds of the *Caja de Crédito Hipotecario* or of other institutions governed by the law of 1855. It was stipulated that the guarantee might also consist of bullion, but no bank would have preferred to deposit bullion on account of its bearing no interest. Like the law of 1860, finally, the present law prohibited the issue of bank notes of denominations less than 20 *pesos* (Article 10).

The purpose of this law was to make room for the passage of another law providing for the establishment of the convertibility of the paper money in circulation. The measure adopted was that of diminishing the note circulation for the purpose of increasing the value of the outstanding paper. In practice this measure had the unfavourable effect of producing a certain monetary restriction or contraction, which exerted no efficacious influence upon the reduction of the gold premium.[1]

The fundamental object of this law was to restrict the issue of paper currency, not only through the retirement and cancellation of the treasury notes already in circulation, but also through the provisions governing the issue and guarantee of bank notes. In reality, however, the law did not serve to decrease the quantity of bank notes issued in 1887, since the amount corresponding to the bank issue of that year was 16,713,133 *pesos*; and inasmuch as the capital of the banks was 22,351,000 *pesos* at that time, they could increase their issue, although no new banks were established, up to that amount. But it deprived the banks of the right conceded to them by the previous law to increase their issues up to 150 per

[1] See G. Subercaseaux, *El Papel Moneda* (Santiago, 1912), p. 38.

cent. of their capitals. What was more serious for the banks was the obligation laid upon them to guarantee 50 per cent. of their issues by the deposit of bonds in the possession of the government, since this deprived them of a part of the funds which otherwise they could have loaned out at interest. The derogation of the right to issue notes of denominations less than 20 *pesos* signified that these were to be issued by the government only.

As regards the small increase of the custom duty, which was already quite moderate at that time, this was a measure which had no direct bearing upon the monetary question; nor did it have the object of protecting the national industries. It was adopted solely for the purpose of increasing the revenues of the government, to enable it to retire the treasury notes outstanding and purchase the bullion provided for in the law.

Worthy of note is the provision for the accumulation of silver bullion, introduced, as it was, at a time when bimetallism seemed dethroned. The reasons for it may be summarized as follows: In 1887 Chile was a producer of both gold and silver, while at the same time Chilean capitalists had important interests in the silver mining industry of Bolivia. Furthermore, the United States Treasury was at that time buying silver for the formation of a reserve silver fund, despite the fact that the country had already adopted the gold standard; and this was a precedent which undoubtedly exerted some influence upon the Chilean policy. Finally, moreover, there was still latent in Chile some of the old prestige acquired by silver in the old bimetallic *régime*, which had not yet been formally derogated.

In 1890 there occurred a grave conflict between the President and the National Congress. Conditions grew worse and worse, until finally, on January 7, 1891, the revolution commenced in fact, and soon acquired the character of a civil war. The rate of exchange suffered a serious decline in consequence of the ensuing events.

The total note circulation underwent no decrease as a result of the law of 1887, since as fast as the government retired and cancelled its notes the banks found it necessary to increase their

issues in order to avoid the effects of monetary contraction. Thus in 1887 the total outstanding circulation of treasury and bank notes was 31,879,768 *pesos*; in 1890 it was 41,303,080 *pesos*.

CHAPTER XXIX

THE CIVIL WAR OF 1891

As soon as the Congressionalists occupied the nitrate provinces of the north, there were two governments in Chile: that of the *Junta de Gobierno* of the Congressionalists in Iquique, and that of President Balmaceda established as dictator in Santiago.

In order to provide himself with funds President Balmaceda suspended the retirement and cancellation of the treasury notes, as also the accumulation of silver bullion, provided for by the law of March 14, 1887. Finding this measure inadequate, however, he took 1,691,194 *pesos* from the silver bullion fund that had accumulated until then, the total amount of this fund in 1890 having been 3,841,987 *pesos*, that is, *pesos* containing 25 grm. of silver $\frac{9}{10}$ fine.

Since the majority of the banks adhered to the revolutionary movement, the President appointed a comptroller for almost all of them, who finally decreed that all of them should lend the government a sum equal to the amount of their note issues, with the understanding that the latter were to remain under the control of the government as if they were true treasury notes—an operation which was equivalent to the negotiation of a loan without interest. This measure sufficed to supply the government of President Balmaceda with only 8,918,836 *pesos*, because the triumph of the Congressionalists prevented the banks from delivering the entire amount corresponding to their note issues.

The government of President Balmaceda also resorted to the issue of treasury notes to the amount of 20,809,297 *pesos*, thereby doubling the outstanding circulation thereof. This action completely nullified the law of 1887, the object of which

was to pave the way toward the re-establishment of the convertibility of the paper *peso* by means of the retirement and cancellation of treasury notes and the accumulation of silver bullion.

The dual government lasted until August 14, 1891, on which day the Congressionalists defeated the regular army near Valparaiso and thereby sealed the triumph of the revolution. The new government thereupon established assumed responsibility for the treasury notes issued by President Balmaceda, for they could not be repudiated without causing heavy interest losses. Later on, moreover, it followed a similar course with respect to the banks, agreeing to recognize their credits against the government of President Balmaceda proceeding from the above-mentioned loan. With the re-establishment of peace and order the rate of exchange rose to 22·5*d.*, shortly afterwards to decline again.

When order was re-established after the revolution of 1891, the outstanding note circulation was as follows :

	Pesos
Treasury notes . .	42,263,424
Bank notes . .	20,291,036
Total . .	62,554,460

This signified an increase of approximately 50 per cent. of the total note circulation corresponding to the year 1889, and an increase of almost 100 per cent. of the treasury note circulation, the treasury notes being the only paper currency of full legal tender in circulation.

CHAPTER XXX

THE LAW OF SEPTEMBER 10, 1892, AUTHORIZING THE MAKING OF CONTRACTS IN ANY FORM OF GOLD OR SILVER CURRENCY

THE Chilean Commercial Code provided that the contracts in which it was stipulated that the payment was to be made in the currency of other countries would have to be reduced, either by agreement of the parties concerned or by a judgement of experts, to the legal money of Chile (Article 114).

When in 1878 the bank notes were declared inconvertible, the law of September 6 provided that ' the inconvertible notes were to be considered legal tender for the settlement of all debts contracted in Chile, whether before or after the promulgation of this law, and in whatever form they may have been contracted ' (Article 2). A similar declaration was subsequently made in the laws authorizing the issue of treasury notes in 1879 and 1880.

According to the *régime* that existed up to 1892, therefore, paper money was legal tender for the settlement of all debts contracted in any kind of money.

The government of 1892, which was very desirous of putting an end to the paper money *régime*, obtained from Congress the passage of the law of September 10 of that year providing that ' from the date of the promulgation of this law all debts contracted in gold or silver currency, whether national or foreign, shall be payable in the money agreed upon '. Thus the making of contracts in any kind of money was expressly permitted by law, and the law is still in force at the present time.

As a matter of fact, however, since the Chilean monetary circulation consists solely of legal tender notes, it is necessary to use these notes for the settlement of all debts contracted in any form of currency and to make the corresponding reduction.

This provision permitting the making of contracts in any kind of money, in a country on a paper basis, might possibly be advantageous, from a certain standpoint, for the develop-

ment of credit operations. In reality, however, it cannot be looked upon as a step toward the re-establishment of the single gold standard, since it leaves unsolved, and even in a more difficult state, the problem of the exchange fluctuations. They are laws which tend more to demonetize the inconvertible note, by curtailing its use, than to stabilize the exchange.

CHAPTER XXXI

THE CONVERSION LAWS OF 1892 AND 1893

In June 1892 the government decided to put an end to the paper money *régime* as soon as possible. The President was firmly resolved to carry out this reform, despite the fact that the existing conditions were not very favourable for it. It was desired to effect a conversion at par at the moment when the rate of exchange was 17*d.* and manifesting a downward tendency.[1] For many years the price of copper had been quite low, and it was getting lower every day; and the same was true of silver. The price of nitrate was about the same as it had been for some time.

On November 26, 1892, when the rate of exchange was manifesting a downward tendency, there was promulgated a law the principal provisions of which were the following:

(1) The government was authorized to negotiate a loan of 1,200,000 pounds sterling.
(2) Authority was also given for the retirement and cancellation of 10,000,000 *pesos* in treasury notes—an amount corresponding to approximately one-third of the outstanding circulation.
(3) The treasury notes were afterwards to continue being retired and redeemed in the gold coin created by this law, provided the rate of exchange was 23½*d.*
(4) After December 1, 1895, the treasury notes were to be redeemed in the old silver *pesos* containing 25 grm. of metal $\frac{9}{10}$ fine, or in the equivalent thereof in the gold

[1] At that time par, that is, the par value of the silver *peso* containing 25 grm. of metal $\frac{9}{10}$ fine, was around 29*d.* or 30*d.*

pesos of 24*d.* created by this law. The President of the Republic was to fix the ratio between the two metals.

(5) In any event on July 1, 1896, the treasury notes, which constituted the only form of paper money in circulation, was to cease to be inconvertible.

(6) The gold standard was established, the only monetary unit being the gold *peso* containing 0·798805 grm. of metal $\frac{9}{10}$ fine, which was equivalent to 24*d.* gold standard.[1]

(7) The *régime* of the free issue of bank notes was maintained, the banks being required to maintain in their vaults a gold reserve equal to at least (minimum) 20 per cent. of their note issues.

(8) English pounds sterling were made legal tender for the settlement of all obligations.

The average rate of exchange in the years 1891 and 1892 had been 18*d.*, so that conversion at 24*d.* signified increasing the gold value of the currency by one-third. If we consider this augmentation of the value of the currency, on the one hand, and the monetary restriction resulting from the retirement and cancellation of the treasury notes, on the other hand—and all this after a period of excessive expansion of credit and extravagant speculation and in the midst of very unfavourable economic conditions due to the drop in the prices of articles of exportation,—it will be easily understood that conversion in this manner necessarily produced a grave crisis. It was, figuratively speaking, too violent a check given to a horse that had been running with a loose rein.

The illusion was no longer cherished that the government alone would have to concern itself with the conversion of its notes, and that the banks themselves would take charge of the conversion of the notes issued by them. If the inconvertibility of the bank notes had been declared in 1878 in order to save the banks, it was not practical to prescind from them on returning to the gold basis, for it is obvious that the banks would have been unable to meet the situation, especially in view of

[1] This rate did not correspond to the gold *peso* or the silver *peso* of the old bimetallic *régime* which the paper currency nominally represented. The silver *peso* weighing 25 grm., which was of less value, was worth around 30*d.*

the fact that they had just passed through a period of abuse of credit.

Article 7 of the law in question provided that the government, after December 31, 1895, was to redeem the treasury notes presented to it for 25 grm. of silver or the equivalent thereof in the gold currency created by this law. Thus, if 25 grm. of silver was equivalent to 1·20 grm. of gold at 24*d.* on that date, for example, the government was to redeem each paper *peso* at the rate of 1·20 *pesos* in gold. It was indeed a curious and absurd scrupulosity that inspired such a measure, after twelve years in which the rate of exchange had steadily declined and always remained below par ! The injustices caused by a falling exchange were not to be remedied by this means, for the holders of treasury notes in 1895 were certainly not the same persons who had previously suffered from the depreciation of the currency. On the contrary, the retirement and cancellation of the notes in circulation signified an unmerited enrichment of persons who had previously suffered no loss.

On December 31, 1892, the quantity of notes in circulation (in *pesos*) was :

Treasury notes . .	31,375,738
Bank notes. . .	14,279,096
Total . .	45,654,834

If we compare these figures with those given in the preceding chapter, we find that the total circulation underwent an increase amounting to almost one-third in one year. The government, on its part, was pursuing the policy of retiring and cancelling its notes ; and the banks, on their part, actuated by the fear of having to redeem their notes in gold *pesos* of 24*d.*, and in view of the fact that their non-receivability in payment of public dues made their circulation more difficult, also began to retire their notes. And to this, moreover, there was added the occultation of treasury notes which had already begun.[1]

[1] In regard to the occultation of the treasury notes, the Minister of Finance expressed himself in the legislative session of May 8, 1893, as follows : 'The occultation of the treasury notes is due, according to many persons who are interested in the study of our economic situation, to the unwarranted attitude of distrust on the part of a large number of people who are led by a certain fear of the

At the commencement of the year 1893, before the government had begun to retire and cancel its notes in conformity with the law of November 26 of the preceding year, the effects of the monetary contraction began to make themselves felt to such an extent that the government itself and the very partizans of the conversion law believed that the time had come to return to the market the circulating medium whereof it had been deprived, so that it became necessary to modify the law which had just been passed.

In December 1891 the rate of exchange was 21·5*d.*, and in December 1892 it was 17·75*d.* Thus the decrease of the note circulation had not produced the desired effect. On the other hand, it had resulted in a serious monetary contraction; and despite the firm resolution of the government to do away with the *régime* of inconvertibility, and despite its policy of restricting the monetary circulation, in order to check the effects of the monetary restriction it was obliged to authorize, in 1893, a new issue of treasury certificates. This policy of decreasing the quantity of notes in circulation exerts no direct influence upon the rate of exchange, but it does exert a direct influence upon the effects of the monetary contraction or restriction.

In view of the grave situation that was produced the government began to retrace its steps. In the first place, it made the bank notes receivable in payment of public dues—a measure which was of great importance in Chile, not only for the payment of taxes, but also because almost all the railways of the central region belong to the state. In the second place, it suspended the retirement and cancellation of the treasury notes provided for in the law of 1892. Finally, it authorized the issue of treasury certificates with the character of treasury notes.

In December 1893 the quantity of notes in circulation (in *pesos*) was:

Treasury notes . .	29,596,033
Bank notes. . .	17,266,507
Treasury certificates .	8,902,000
Total . .	55,764,540

depreciation of their security holdings to conceal the treasury notes, in which they have more confidence than in other securities.'

In the first half of the year 1893 everything that had been done in 1892 in the matter of the monetary restriction was undone. After this derogation from the provisions of the law of 1892 regarding the retirement and cancellation of the treasury notes, there was promulgated on March 31, 1893, a new law which modified the previous law of November 26, 1892, in the following manner:

(1) After June 1, 1896, the government was to redeem the treasury notes presented to it in the gold currency of 24*d.* established by the law of 1892.
(2) After December 31, 1899, the government was to redeem the treasury notes presented to it at the rate of 25 grm. of silver or its equivalent in gold of 24*d.* per *peso*.
(3) For the issue of bank notes the provisions of the previous law were maintained in force; that is, the banks were authorized to issue convertible notes on condition of their maintaining gold reserves equal to at least 20 per cent. of their note issue.

This law suppressed the provision of the previous law regarding the gradual retirement and cancellation of the treasury notes, and at the same time provided that the latter, after June 1, 1896, would be convertible upon demand. Likewise, the negotiation of the loan of 1,200,000 pounds sterling was abrogated. There was maintained the curious clause providing for the payment of the treasury notes which had not been previously converted at the rate of 25 grm. of silver or its equivalent in gold of 24*d.* per *peso*.

This new law contributed nothing toward the solution of the problems created by the previous law, for the insistence upon maintaining the conversion at 24*d.*, when the actual rate of exchange was 17½*d.*, signified leaving the greatest of the difficulties unsurmounted.

Meanwhile, the rate of exchange continued to decline, these laws apparently failing to influence it in the slightest degree. This gives evidence of the profound distrust that existed with respect to the government's credit, at that time, since at any other time such a law would have had an immediate effect upon the rate of exchange.

CHAPTER XXXII

THE DEFINITIVE CONVERSION LAW OF FEBRUARY 11, 1895

At the beginning of the year 1894 the rate of exchange was 13*d.*, and a few months later it fell to 11*d.* Meanwhile, there remained in full force the law which provided for the redemption of the paper *peso* in two years more at the rate of 24*d.* This alone indicated the profound distrust that existed in the public mind as regards the execution of the law. It was already understood, moreover, that the banks were not in a position to redeem their notes or pay their deposits in gold, because a large proportion of their debtors would not be able to meet their obligations. Liquidation at 24*d.* was sure to force innumerable persons into bankruptcy, and at the same time to create a very difficult situation for the banks, which in the preceding years, as we have already said, had expanded their credit beyond the limits of prudence. The debtors were already beginning to appreciate the gravity of the situation with which they were confronted.

To enhance the difficulties, moreover, the old differences with the Argentine Republic in regard to the boundary question were arising again in a somewhat threatening manner, making it necessary for the Government of Chile to invest considerable sums in armaments.

Under these circumstances it was impossible to execute the conversion law that had been promulgated. The government recognized this fact, and in June 1894 declared that it was disposed to accept a modification of the said law based upon a consideration of the exigencies of the moment. The rate of exchange went down to 11*d.*, and the uncertainty regarding the solution of the monetary problem increased every day.

At the beginning of the year 1895 the government, appreciating the necessity of modifying the conversion law in force, but still determined to do away with the paper money *régime* as soon as possible, sought to bring about a compromise between

the opposing factions, that is, between the friends and the enemies of the conversion law. The result of its efforts was a bill which submitted to the vote of Congress the rates of 16*d.* and 18*d.* for the new gold currency. This was specifically a transaction between the advocates and the opponents of the rate of 24*d.*, and resulted in the passage of the law of February 11, 1895, the principal provisions of which were the following:

(1) The conversion of the paper money was to commence on June 1, 1895—that is, four months after the promulgation of the law.
(2) After December 31, 1897, the government was to redeem the treasury notes presented to it for cancellation in silver at the rate of 1 silver *peso* containing 25 grm. of metal $\frac{9}{10}$ fine per paper *peso*. From that time on the treasury notes would cease to form part of the monetary circulation.
(3) The proceeds derived from the sale of some nitrate deposits belonging to the state were to be set apart exclusively for the purchase of gold for the execution of this law.
(4) The banks of issue were to guarantee their note issues by a deposit of government bonds, or bonds of the mortgage banks, or gold.
(5) The monetary unit was to be the gold *peso* containing 0·599103 grm. of metal $\frac{11}{12}$ fine. The English pound sterling was to be legal tender for the amount corresponding to its value.

Instead of 24*d.*, accordingly 18*d.* was adopted as the exchange value of the *peso* constituting the monetary unit, which signified a reduction of one-fourth. But it was provided that the realization of the conversion was to be immediate, passing over all difficulties.

There was maintained the unjustifiable provision whereby the fortunate holders of treasury notes which had not previously been converted, and the creditors of the state, were to be paid at the rate of the equivalent of the silver *peso* of 25 grm. It was thus pretended to fulfil in an honourable manner the

promise of the state to redeem its notes and obligations at par, just as if this promise had applied only to a few note-holders and not to the general public which had entered into contracts in the lawful currency. This was a genuine injustice, since the persons who benefited by the measures adopted were by no means the same persons who had previously suffered from the depreciation of the treasury notes.

In these laws there is to be noted the influence of the English monetary system. In place of the fineness of $\frac{9}{10}$ which our metallic currency had previously had, and which is more in accord with the decimal metric system, the English fineness of $\frac{11}{12}$ was adopted. Furthermore, legal tender power was given to English pounds sterling under conditions the same as those applicable to Chilean coins—a provision which would obviously present disadvantages when it became necessary to recoin, for the account of the state, English coins which had lost part of their weight by abrasion. Moreover, inasmuch as the law provided that ' the value of the pound sterling shall be thirteen and one-third *pesos* ', in the hypothetical but not improbable case, that the English Government should modify the weight or fineness of its gold currency, the people of Chile would find themselves at the mercy of the resolutions of that government—which signified a certain abdication of the national sovereignty.

At the time of the passage of this law the rate of exchange was 15*d.* ; and inasmuch as the conversion gave assurance of an exchange of 18*d.* in four months, speculators who knew that the government was resolved to execute the law took advantage of the opportunity to realize a brilliant operation.

It was soon seen that the banks were not in a position to meet their obligations even at the rate of 18*d.*, and the government, resolved as it was to carry out the reform, brought about the passage of the law of May 28, 1895, containing the following provisions :

(1) Authority was given for the negotiation of a loan of 2,000,000 pounds sterling.
(2) The government took charge of the redemption of the

bank notes in gold, the banks remaining obligated to pay the state the amount which it had paid out for this purpose.

June 1, 1895, the day on which the redemption of the notes was to begin, arrived, and the atmosphere of distrust still showed no signs of clearing. It was confidently believed that the government would commence the redemption, as the law provided, but it was greatly feared that the period of conversion would last only a few days or months. It had been announced in various newspapers, circulars, and journals that the gold would start to flow out on the first steamers sailing in June and that the country, precipitated into another monetary crisis like that of 1878, would have to return to the *régime* of inconvertible paper. To make matters worse, moreover, the general distrust was increased by rumours of further political entanglements with the Argentine Republic.

As was to be expected, accordingly, as soon as the money vaults were opened, the note-holders rushed in to demand the new metallic currency in exchange for them.

Meanwhile, the banks were subjected to great pressure brought to bear upon them by their depositors, who hurried to withdraw their money for the purpose of having it redeemed. At that time the government, in order to save the banks, which would certainly have been unable to withstand a run for one day, instead of cancelling all the notes presented to it for redemption, returned a large part of them to the banks, in this way limiting itself to the cancellation of the treasury notes and the maintenance of the bankers' exchange at par. After the stability of the banks was assured, the retirement and cancellation of the notes presented for redemption continued.

The quantity of notes in circulation (in *pesos*) when the conversion began was :

Treasury certificates	8,898,728·50
Treasury notes	29,601,241·50
Bank notes	20,993,330·00
Total	59,493,300·00

The resources of the government (in *pesos*) up to May 1897 were :

Silver bullion existing in 1892	4,319,226·15
25 per cent. of the import duties from January 1, 1893, to July 1, 1896	20,304,954·00
Received from the sale of nitrate	14,884,541·24
Discounted obligations of nitrate producers	14,423,567·43
Sale of rubbish	40,000·00
Recovered from notes not redeemed	696,163·50
Liquid proceeds of the loan of 2,000,000 pounds sterling	24,333,333·33
Total	79,001,785·65

Up to this same date of May 1897 the notes cancelled (in *pesos*) totalled :

Treasury notes	26,537,829·50
Treasury certificates	8,862,828·50
Bank notes	8,753,905·00
Total	44,154,563·00

Thus there remained in circulation (in *pesos*) :

Treasury notes	3,063,412·00
Treasury certificates	35,900·00
Bank notes	12,239,425·00
Total	15,338,737·00

Of these 15,338,737 *pesos*, there were some 3,000,000 in occulted notes.

Already on that date (May 1, 1897) the conversion could be looked upon as entirely completed. The 12,000,000 *pesos* in bank notes might remain in circulation, after the excitement had passed over, as notes convertible on demand. If the operations of the conversion had not been conducted under unfavourable conditions, that is, if they had been conducted at a more regular time and at the current rate of exchange, it is safe to say that there would have been no need of withdrawing the bank notes from circulation at all ; for it would have sufficed to let them remain in circulation as notes convertible on demand.

The banks owed the government more than 24,000,000 *pesos* corresponding to funds it had loaned them and to the redemp

tion of their notes. These obligations were rapidly settled afterwards, however, so that the government suffered no loss in the operation.

CHAPTER XXXIII

THE GOLD RÉGIME OF 1895–8

On July 1, 1895, as we have seen, there was established the *régime* of the single gold standard, the monetary unit being the *peso* containing 0·599103 grm. of gold $\frac{11}{12}$ fine. The general economic situation at that time was rather critical. Of the nine existing banks capitalized at 1,000,000 *pesos* or more, two belonged to private bankers and the other seven were constituted as incorporated companies; and of these seven, four were compelled to close their doors.[1]

Interest rates underwent an extraordinary increase, while the quotations of mortgage bonds and other securities suffered a pronounced decline, as did also the value of rural and urban properties. All this, moreover, was accompanied by an extraordinary paralysation of business and a general restriction of credit.

When a crisis of this kind supervenes in a paper currency *régime*, the very depreciation of this currency, as evidenced by a falling exchange and frequently by an inconsiderate increase of the outstanding note circulation, nourishes the situation of

[1] In 1895 the banks capitalized at 1,000,000 *pesos* or more were the following:

Banco de Chile (which was formed by the consolidation of the Valparaiso, the Nacional, and the Agricola in 1893) . . .	20,000,000 *pesos*
Santiago	4,000,000 ,,
Comercial	4,000,000 ,,
Mobiliario	3,500,000 ,,
A. Edwards y Cía.	3,000,000 ,,
Talca	2,000,000 ,,
D. Matte	1,000,000 ,,
de la Unión	1,000,000 ,,
Crédito Unido	1,000,000 ,,

Of these nine banks, of which those of A. Edwards and D. Matte belonged to private bankers, the only ones that kept open were the Banco de Chile, the Mobiliario, and the Talca.

the debtors and prevents any pronounced lowering of prices. The banks, on the other hand, are less subject to withdrawals of deposits in an inconvertible paper *régime* than they are in a gold *régime*.

In 1898 this critical situation continued to prevail, although the gold *régime* could already be looked upon as definitely established. Just then, however, the relations between Chile and the Argentine Republic were becoming alarmingly strained, the danger of war causing it to be rumoured in Santiago that the government was preparing to return to the *régime* of paper currency. In consequence of this rumour bank depositors began to withdraw their money in order to save their gold. It was not so much a question of redeeming bank notes, since there were but few of them in circulation, as it was a question of withdrawing deposits. Presently the movement of distrust became more general and finally culminated in a run on the Santiago banks, which in less than two days were placed in an extremely embarrassing situation. As the run threatened to spread throughout the entire country, the government authorized them to close their doors. Shortly afterwards, on July 11, 1898, a thirty-day moratorium was declared, and before the end of the thirty days there was passed the law of July 31 containing the following provisions :

(1) Authorization was given for the issue of 50,000,000 *pesos* in government notes having the quality of full legal tender ; and at the same time the issue and circulation of bank notes was suppressed, so that the said 50,000,000 *pesos* remained the only circulating media besides the silver subsidiary currency.[1]
(2) January 1, 1902, was fixed as the date for the re-establishment of the convertibility of the paper currency.
(3) Gold alone was made receivable in payment of export duties.

The return to inconvertible paper served to overcome the distrust of bank depositors somewhat ; for if they had an

[1] Law No. 1510 of December 31, 1901, definitely confirmed the suppression of bank notes.

interest in withdrawing their gold, certainly they had no interest in withdrawing and hoarding irredeemable paper.

The new monetary system, reduced, as it was, to a fixed circulation of treasury notes, was absolutely inelastic. The circulating necessities of a country are variable, so that a good monetary system has to possess the quality of elasticity, that is, the quality whereby the quantity of currency may be adjusted to the requirements of the market.

As regards the date fixed for the re-establishment of the convertibility of the gold notes, it was afterwards, as we shall see further on, extended several times.

Inasmuch as it was only a question of saving the banks, one may ask why it was that recourse was not had to the issue of bank notes instead of treasury notes ? The answer is simply this : Because the financial situation of the government was so good that its credit enjoyed greater prestige than that of the banks.

The collapse of the gold *régime* and its replacement by the paper *régime* was thus brought about by the necessity of saving the banks from imminent ruin. It was impossible to import any gold from abroad to calm the excitement of the bank depositors, because the small amount of gold nearest at hand was in Buenos Aires, which, owing to the fact that the communication over the Cordilleras was cut off by severe winter weather, was fifteen days distant.

As regards the provision that gold alone was to be receivable in payment of export duties, this measure was adopted with a view to keeping a certain amount of gold in circulation, the belief being that it would facilitate a return to the gold basis later on. In reality, however, there was nothing gained by it as regards the circulation of gold. Some countries with monetary systems constituted on a paper basis have maintained the collection of certain duties in gold as a means of securing revenue for the making of gold payments abroad and thereby doing away with the necessity of purchasing bills of exchange in the market. But the Government of Chile limited itself to making customs duties payable in gold and immediately

using the gold thus collected for the redemption of its paper currency at the existing rate of exchange; for paper currency was what it needed for the defrayal of its expenses.[1] The question is: Would it not have been preferable, since the government had no need of gold, to collect the customs duties in paper currency with the corresponding discount?

CHAPTER XXXIV

THE INITIATION OF THE NEW PAPER RÉGIME IN 1898

We have seen how the law of July 31, 1898, re-established the *régime* of paper currency, the circulation thereof having been fixed at 50,000,000 *pesos* of treasury notes, and how the issue of bank notes was suppressed.

Soon after the initiation of this paper currency *régime* the general feeling of distrust that existed at that time gave rise to a gradual increase of the premium on gold. In January 1899 the rate of exchange fell to 11*d.*, but soon after that a reaction set in and the gold premium began gradually to decrease, so that by the end of the year the rate of exchange was around 16*d.*

The economic crisis which still existed with all its manifestations just prior to the beginning of the new paper currency *régime* in 1898, had entered into its period of liquidation, and by 1902 it had entirely terminated, to be followed by a period of genuine prosperity.

The price of nitrate, the product which constituted the basis of Chile's export trade, and with which many of its national interests were more or less directly bound up, was gradually going up; from 7*s.* 6*d.* per English quintal in 1898 it rose to 11*s.* in 1906. The price of copper, the principal product of the mining industry, likewise rose from £48 sterling per English ton in 1898 to approximately £100 sterling

[1] In order to meet its payments abroad the Government of Chile made use of the export duties proceeding from its nitrate, a product which, like gold, is all exported to foreign countries.

per English ton in 1906. Wheat and barley also went up in price, the value of the exports thereof increasing from 152,085,331 *pesos* of 18*d.* in 1895 to 266,804,729 *pesos* of 18*d.* in 1905. The value of the imports did not increase in the same proportion, however, since from 146 million *pesos* in 1895 it rose to only 188 million *pesos* in 1905.

The premium on gold decreased daily. But the rising rate of exchange did not produce a crisis, as it had in 1895, on account of the general prosperity caused by the rise of prices and the increased export trade. The rise of prices neutralized the rise of the rate of exchange. On the other hand, the depreciation of the paper currency caused by the fall of the rate of exchange had been of short duration, which signified that few interests had been bound up with it. The decrease in the gold premium continued until it reached 6 per cent. in 1904, which corresponded to a rate of exchange higher than 17*d.*

New nitrate deposits were discovered in the northern part of the country, and important cattle-raising enterprises were established in the south, where previously nothing at all was produced. The general prosperity and expansion of credit were threatening to assume the character of speculation and abuse. The following table shows the fluctuation of bank deposits and loans (in paper *pesos*) in the years 1901–4 :

Year	Deposits	Loans
1901 . .	94,657,415	106,700,359
1902 . .	141,342,115	173,101,964
1903 . .	136,285,501	162,860,516
1904 . .	171,085,232	201,691,651

In 1904 the rate of exchange was very close to par, when this movement, which had not yet assumed the character of speculation and abuse, began. There was also felt the need of increasing the amount of money in circulation, for the only circulating media then outstanding were the 50,000,000 *pesos*, not one *peso* more or less, in treasury notes. It was a very disadvantageous monetary system as regards elasticity.

The occasion was undoubtedly most propitious for returning to the *régime* of metallic currency and at the same time adopting

an advantageous system for the issue of bank notes, thereby giving the monetary system the necessary elasticity. It would have been very easy to procure the gold necessary to ensure the stability of exchange, especially if recourse had been had to the so-called 'gold exchange standard'; for the foreign exchange market was favourable to the country, and at the same time the government had the necessary credit.

The proposals to establish the convertibility of the paper currency made by the government in 1895 would have been more opportune had they been made under the conditions that prevailed in 1904.

CHAPTER XXXV

THE PERIOD OF INFLATION FROM 1905 TO 1907

In the midst of the exaggerated development which credit operations began to undergo, and in the midst of the speculation which was already commencing, the solution of returning to the gold *régime*, or to the *régime* of a stable rate of exchange, necessarily met with vigorous opposition on the part of many persons whose interests were compromised in the new gyration of business. Still fresh in the public memory was the grave crisis of 1895; and inasmuch as this crisis had coincided with the gold *régime*, there were many who believed that a return to the gold basis necessarily signified a return to the same state of business depression. The great majority of the members of parliament declared their opposition to every idea of returning to the gold basis and openly favoured an increase of the issue of treasury notes. Everybody talked of the necessity of adopting the policy of introducing an abundance of circulating media as a means of facilitating the economic development of the country and ensuring the success of the new industrial enterprises.

An outcome of this inflationist tendency was the law of December 29, 1904, which postponed a second time the date fixed for the re-establishment of the convertibility of the paper

money and at the same time authorized the issue of 30,000,000 *pesos* in treasury notes. Most of this sum, inasmuch as it was not needed by the government for the defrayal of current expenses, was to be invested in bonds of the *Caja de Crédito Hipotecario*. This same law, moreover, also provided for the formation of a conversion fund which was to be used exclusively for the redemption of paper money in gold. In this way the total note circulation was increased 60 per cent. all at once, and at the same time there was lost the only favourable opportunity that had presented itself for re-establishing the gold *peso* of 18*d*.

In the month of May 1905, after the speculative fever had reached its climax, and after an unprecedented and abusive expansion of credit, there occurred a sort of stock exchange crisis which made it necessary for the speculators to liquidate many operations under unfavourable conditions. The banks restricted credit, security values went down, and the speculative movement was for a time brought to a halt. This reaction lasted only a few months, however, and presently there came what is commonly called the revival; and with it speculation and abuse of credit began again.

In 1905 the rate of exchange, which at the end of 1904 had risen almost to par, began to go down again, reaching 15·5*d*. at the end of that year and falling as low as 13·6*d*. in October and November of the following year. This will be seen from the table in chapter LV.

At the end of April 1906 the banks again began to complain about the scarcity of circulating media. The following table shows the quantity of notes (in *pesos*) which they had on hand:

January 31, 1906 . . .	34,335,219
February 28, 1906 . . .	25,735,428
March 31, 1906 . . .	22,228,408

In April the decrease of the bank funds continued, and under such circumstances it was of course impossible to think of returning to the circulation of gold, at least at par, since the premium on gold was already very high. Inasmuch as the inflationist current in favour of increasing the issue of government notes was growing stronger every day, Congress resolved

to have recourse to a new issue of 40,000,000 *pesos* (law of May 23, 1906). This brought the total note circulation up to 120,000,000 *pesos*, so that in a period of only a little more than a year the increase of the note circulation amounted to 240 per cent. Like the previous law of December 29, 1904, this law provided that the conversion fund should continue to be used exclusively for the redemption of the paper currency in gold, and that each paper *peso* issued should be guaranteed by a gold *peso*. The 40,000,000 *pesos* of this last issue were to be used for the most part for public works.

Meanwhile, the general price level rose somewhat, this signifying a decline in the value of the currency. It was not only gold and merchandise imported from abroad that went up in price, but also domestic merchandise manufactured purely for internal consumption, as well as rural and urban properties, wages, rents, etc. The increase of the note circulation, accompanied by the fall of exchange, stimulated the general rise of prices, or, what amounts to the same thing, the general depreciation of the currency. The government was mistaken in its belief that the accumulation of a gold fund abroad would prevent the rise of the gold premium and the depreciation of the paper money.

The general rise of prices naturally increased the requirement for circulating media ; that is to say, more notes were needed for pocket money, for the payment of wages, etc. The requirements which could previously be met with 50,000,000 *pesos* now called for almost double that amount.

In 1907 there was produced a situation analogous to those that had preceded, a state of affairs wherein the banks and those who had abused the granting of credit found themselves confronted with a scarcity of circulating media. The inflationist current was so strong that, despite the opposition of the Executive, who was at that time opposed to increasing the note circulation, Congress, the majority of the members of which were in favour of it, authorized a new issue of 30,000,000 in treasury notes (law of August 27, 1907). This new issue brought the total note circulation up to 150,000,000 *pesos*.

With the object of putting an end to this policy of periodi-

cally increasing the circulation of treasury notes, against which a movement of opposition was beginning to organize itself, a new law of August 27, 1907, authorized the issue of treasury notes on condition that gold be deposited as security at the rate of 18*d.* per *peso*. Any person who deposited gold in the national vaults, or in the National Treasury of Chile in London, would acquire the right to obtain notes in the aforesaid proportion. This institution for the issue of notes was called the *Oficina de Emisión*.

According to Article 3 of the law referred to, ' the depositors (of the *Oficina de Emisión*) were to receive a nominal certificate for the withdrawal of gold deposited in Santiago or London against the restitution of the corresponding amount in treasury notes '. This meant that anybody who deposited a certain amount of gold, in order to secure notes for it, received a certificate entitling him to recover his gold upon returning the corresponding notes for redemption.

The rate of exchange having fallen to 13*d.* and even 12*d.* in 1907 and the following years, the mechanism of the *Oficina de Emisión* could not function properly, or at least with any regularity, since it was manifestly very onerous to issue notes worth only 12*d.* or less against deposits of gold at the rate of 18*d.*

In order to give the reader an idea of the exaggerated development of the spirit of enterprise at that time, we reproduce at this point a table showing the capital of the incorporated companies that were formed during those years, that is, mining, nitrate, agricultural, cattle-raising, banking, insurance and other companies, all established in Chile with capital subscribed and paid in Chile.

TOTAL CAPITAL OF INCORPORATED COMPANIES, 1900–6

Year	Those capitalized in Chilean *pesos*	Those capitalized in pounds sterling
1900 . .	23,900,000	230,000
1901 . .	15,944,250	475,000
1902 . .	10,985,500	40,000
1903 . .	20,419,000	. . . . .
1904 . .	28,598,000	995,000
1905 . .	216,062,000	8,393,240
1906 . .	88,046,000	7,999,000

CHAPTER XXXVI

OBSERVATIONS UPON THE POLICY OF PERIODICALLY INCREASING THE CIRCULATION OF TREASURY NOTES

The system of authorizing a new issue of treasury notes whenever complaints about the lack of circulating media were heard (the system which characterized the period from 1904 to 1907 in the monetary history of Chile) undoubtedly had many disadvantages. One may ask, indeed: How was the quantity of notes required by the market measured? What objective standard was used for determining the amount of the separate issues? The procedure was undoubtedly arbitrary; that is to say, the amount of an issue was fixed at, say, 30,000,000 *pesos*, and with the same logic it might just as well have been fixed at 20,000,000 or 40,000,000 *pesos*.

Having myself been a deputy in the National Congress, I venture to reproduce here some remarks which I made in regard to this policy in one of the sessions of 1912:

> What has happened since 1904 is merely a consequence of our defective monetary policy. As the rate of exchange at this time is 17*d*. there is felt the first scarcity of money, the first shortage of circulating media. What is to be done to remedy the difficulty? In the metallic system, under such circumstances as existed in 1904, foreign gold helps to increase interest rates, as it did in the Argentine Republic and Brazil, with the conversion fund; and when there is an issue of bank notes, as in France, England, etc., demands not satisfied with metal are satisfied with paper. Thus there are two kinds of elasticity in the metallic monetary system: (1) the metal which enters and leaves the country, thereby increasing or decreasing the total monetary stock; (2) the convertible bank notes issued according to the requirements of the market.
>
> In our system of government notes there is no elasticity whatsoever. In 1904 the total circulation of government notes amounted to 50,000,000 *pesos*, not one *peso* more or less. Given a monetary crisis, what was to be done? If elasticity was not sought by establishing a system of metallic currency accompanied by bank notes, or a conversion fund, there was nothing else to do but resort to the issue

of more treasury notes. But to what extent was it necessary to increase the note circulation? There was no standard to go by, no objective basis to work on; all that could be done was to proceed according to the appreciations of the government authorities and Congress. Accordingly, thirty millions more were issued, simply because they were desired; for the same reason twenty or forty millions might just as well have been issued. When a well-directed bank issues notes, it does so with reference to the current needs of the loan and discount market; and in this way it adjusts the amount of an issue to the requirements of business. In our *régime* of government notes, the quantity of which may be increased at the will of Congress but never decreased, it was impossible to proceed otherwise than arbitrarily.

When the thirty millions were issued in 1904 prices went up, speculation followed, and everything was apparently moving along smoothly; but in 1906 the scarcity of circulating media again made itself felt and the banks again began to call for more notes. The stimulating effects of the issue of 1904 had subsided, and the monetary crisis began anew. Now, however, conversion or the establishment of a conversion fund was out of the question, because the rate of exchange had gone way down. Recourse was again had to another therapeutic issue of government notes, and the amount of paper currency in circulation was increased to the extent of 40,000,000 *pesos*. The patient was somewhat revived by this new injection, whereupon he continued his life of extravagance and speculation. The rate of exchange continued to fall, and prices in general continued to rise, or, what amounts to the same thing, the value of money continued to decrease.

Happiness, however, does not last long. The shock came, and in 1907 the same situation confronted us again. The banks renewed their demands for more notes; and in spite of the protests of the Executive, a new issue of thirty million *pesos* was authorized.

In the use of this remedy every crisis allayed by a new issue of notes merely paves the way to another crisis and another issue to allay that. It is precisely as it is with dope fiends, who provoke their crises with their narcotic and also find their relief in it.

During this period from 1904 to 1907 the policy which prevailed in Chile was that which was commonly termed 'inflationist', and which in Chile itself came to be known as the policy of the *papeleros* (paperers), that is, the advocates of paper currency. The period was one of great economic prosperity, and it was believed expedient to increase the circulation of paper currency liberally in order to satisfy the economic

requirements of the country and to lower interest rates, regardless of the dangers which this policy involved.

In the Argentine Republic we find a similar situation existing in the paper-currency period which began in 1885, when the outstanding note circulation was inconsiderately increased in the name of 'the legitimate needs of commerce and industry'. According to the Argentine writer, Señor Don José A. Terry: 'It was said at that time: seventy millions is a small sum for the monetary needs of our country; and inasmuch as prosperity is in large measure due to the use of credit, we cannot curtail it by making it impossible for the banks to meet the demands made upon them. . . . Although in theory legitimate needs were spoken of, in practice, as a matter of fact, it was very difficult, not to say impossible, to distinguish the legitimate from the illegitimate. Alongside of the commerce and industry there began an orgy of speculation and abuse of credit as the inevitable and fatal consequence of the inconvertibility of our currency.' [1]

In line with this policy the outstanding note circulation in the Argentine Republic was increased from 75,000,000 to 261,000,000 *pesos* in the years 1885–91; and in the same period the gold premium increased from 37 to 281 per cent.

A similar phenomenon was likewise observed in the Republic of Colombia. The Colombian writer, Señor Don Antonio José Iregui, expresses himself as follows: 'Among the evils of paper currency is to be included its incontinence, which brings it about that the scarcer it is the more abundant it becomes on account of the insatiable demands it creates. Although it seems strange that there are persons who desire this calamity, continual issues, causing a general rise in prices, greatly benefit certain merchants and bankers who sell products which they bought when prices were low. This explains why they regret that money is scarce and demand the issue of more.' [2]

In the monetary history of Brazil we also find a period of inflation with the same characteristics. In 1889 the quantity

[1] José A. Terry, *La Crisis de 1885* (Buenos Aires, 1893).

[2] Antonio José Iregui, *Curso de Economía Política* (Bogotá, 1905).

of paper currency in circulation was 197,000,000 *milreis*; and in the following years this was gradually increased, until in 1898 it reached 778,000,000 *milreis*. During that same period the gold value of this paper currency decreased from 27*d*. to 7·5*d*. per *milreis*. 'The delirium of speculation', says a Brazilian writer, 'has reached a point where no more names can be found for the new companies that are organized.'

Thus the case of inflation in Chile is a typical example of what happens in other countries under similar circumstances. The period from 1904 to 1910 in Chile, from 1890 to 1900 in Brazil, and from 1885 to 1891 in the Argentine Republic are typical cases of the same class. The common characteristics of the three cases may be grouped as follows:

(*a*) The countries pass through a period of great economic prosperity.
(*b*) There develops an insatiable thirst for an increase of the circulation of inconvertible notes.
(*c*) The premium on gold increases rapidly.[1]
(*d*) There is a general rise in prices, or, what amounts to the same thing, a decrease in the value of money.
(*e*) The rise in prices, accompanied by speculation and abuse of credit, makes it seem necessary to increase the note circulation.
(*f*) In the midst of this speculation and abuse of credit there prevails a spirit of optimism regarding future business conditions, and there is produced a feverish excitement in the creation of new industrial enterprises. The increase of the note circulation encourages this excitement.
(*g*) After the acute period of inflationist excitement comes another crisis, in the midst of which the depreciation of the paper currency reaches its maximum.
(*h*) When this crisis arrives the new issues of notes do not yet produce the beneficial effect of resuscitating the

[1] It cannot be said that the premium on gold in a paper-money *régime* increases proportionately with the note issues, for this would be to accept the old so-called 'quantitative theory', which modern science rejects. See *El Papel-Moneda* by the author, pt. II, ch. III. But the fact must be known that increases of note issues contain the germ of depreciation, so that it is impossible to increase the circulation of notes without increasing the gold premium to a certain extent at the same time.

effervescence of stock exchange speculation, as they did before. There ensues business depression and restriction of credit, and sooner or later there begins, as in all credit crises, a recurrence of all the madness of the previous period.

(*i*) In the midst of this crisis the high premium on gold and the increase of the note circulation, that is, the depreciation of the paper currency, greatly favour the debtors and thereby facilitate the liquidation. If it were not for the depreciation of the paper currency, the failures and liquidations would assume a much more serious character.

Thus it is a question of special forms characterizing modern credit crises in these cases of currency inflation.

In the history of the United States cases of paper-currency inflation are likewise to be pointed out, especially in the colonial period. In the paper currency of 1862–79 we also have increases of the outstanding circulation and rises of the premium on gold. In spite of the War of Secession we also find a development of the spirit of speculation and the formation of a current of opinion in favour of inflation. But the policy afterwards pursued, of increasing the value of the currency, makes the case of the United States different from that of the other three countries referred to.

CHAPTER XXXVII

THE ESTABLISHMENT AND DEVELOPMENT OF FOREIGN BANKS

Until the year 1888 the banking business of Chile was entirely the product of national capital and industry. All the banks that had been founded in the country were either incorporated companies organized by Chilean capitalists or by foreigners domiciled in Chile, or else belonged to some Chilean banker.

In order to establish a bank in Chile, according to the banking law of 1860, it was necessary to submit an application

to the Minister of Finance declaring the name of the bank, the city or cities in which it was to be established, and the amount of its capital. The government, on its part, had to verify the amount of capital actually paid in.

Under these conditions the foreign capitalist who wished to invest his money in the banking business of Chile had either to purchase shares of the incorporated banking companies already established in the country, or else to establish an entirely new bank in conformity with the provisions of the law.

The first foreign bank constituted in the form of an incorporated company was the *Banco de Tarapaca y Londres*, which was organized in London in 1888 by a group of capitalists interested in the Chilean nitrate industry. Its principal object was to perform banking functions for the Chilean nitrate business, which was then confined almost exclusively to the province of Tarapaca. At the present time this bank is operating in conjunction with the *Banco Anglo-Sud-Americano*.

In 1895 foreign banks began to establish agencies or branch offices in the country, without subjecting their capital to any fiscalization on the part of the state. Article 468 of the Chilean Commercial Code contains the following provision: 'Incorporated foreign companies shall not establish agencies in Chile without the authorization of the President of the Republic.' In reality, however, this provision of the Commercial Code did not have reference to banks which were governed by a special law, such as that of 1860, but rather to other foreign companies of a commercial or industrial character.

In this way the *Banco Alemán Transatlántico* (*Deutsche Ueberseeische Bank*) was founded in the first part of the year 1896. Soon afterwards the *Banco de Chile y Alemania* (*Bank für Chile und Deutschland*) was founded, and in 1911 the *Banco Germánico de la América del Sur* (*Deutsche Süd-Amerikanische Bank*) was founded. These three German banks doing business in South America have certain noteworthy characteristics. All three were organized by large German banking institutions, such as the *Deutsche Bank* of Berlin, the *Nord-Deutsche Bank* of Hamburg, the *Diskonto-Gesellschaft* of

Berlin, and the *Schaffhausenscher Bankverein* of Cologne, all of which, instead of soliciting authorization to found direct branches in South America, deemed it more expedient to organize entirely new companies there, endowing them with a relatively small capital. This was unquestionably a very wise method of procedure ; for if by chance any of these German banks operating in Chile, Argentina, or any other South American country, should be so unsuccessful as to find themselves reduced to bankruptcy, their failure would in no manner compromise the large capitals of the great banks of Berlin, Hamburg, and Cologne.

As a rule these German banks have been administered with ample intelligence, their directors and managers having almost always been thoroughly competent men. Despite the great fluctuations of exchange in Chile, their operations have been conducted in such a way as to yield profits sufficient to enable them to pay dividends to their stock-holders or to increase their capital stock. Their pilots have managed to steer them through the rough sea of our paper currency.

When the history of the great economic expansion which the German Empire achieved through the entire world prior to the year 1914 is written ; when it is brought to light how German promoters learned to take advantage of every money-making opportunity that presented itself on land or water—and especially in the new countries of America—a goodly chapter will have to be devoted to the German banks with which we are here concerned.

The *Banco Alemán Transatlántico* alone, according to its statement of December 31, 1912, having originally been capitalized at 25,500,000 marks, had deposits totalling no less than 132,530,473 marks, which suffices to indicate the enormous volume of business it was doing.

Recently other foreign banks have begun to establish agencies in Chile. The *Banco de Londres y Rio de la Plata*, which a group of English capitalists organized in the Argentine Republic and Uruguay in 1862, has also opened branches in Chile. More recently, moreover, the National City Bank of New York has established agencies in Valparaiso and Santiago.

CHAPTER XXXVIII

THE FOREIGN BANKS CONSIDERED FROM THE STANDPOINT OF THE ECONOMIC INTERESTS OF THE COUNTRY

When the establishment of the first German banks was announced in Chile, the news created a very favourable impression. The public imagined that these institutions would serve as veritable channels for the conveyance of foreign capital into the country. Inasmuch as interest rates were very low in the European markets and very high in the Chilean market, it was expected that the opening up of direct communications through these commercial channels would tend to produce a general levelling that would be decidedly beneficial to the national commerce and industry. Every foreign bank that was established in Chile, accordingly, was very well received by the public.

However, these optimistic hopes were not realized. The foreign banks did not accomplish the purpose that was desired and expected; that is, they did not serve as commercial channels for the conveyance of foreign capital into the country, but rather as commercial pumps which drained the country of a considerable sum per annum in the form of profits earned.

As a rule the foreign banks established in Chile have not introduced capital into the country to be placed on loan there. Generally speaking, their capital has been rather small, and their business has been limited to receiving deposits and using the funds so obtained for ordinary loan and discount operations; and in this way they have derived a certain profit from the difference between the interest they have paid their depositors and the interest they have collected from their creditors.

Why have these foreign banks functioned in this manner? For two reasons: first, because our monetary *régime* is one of a constantly fluctuating paper currency which cannot offer the

proper guarantees for the investment of foreign capital. For what incentive is there for a European capitalist to invest his money at 9 or 10 per cent. in Chile, when he runs the risk of having his profits swept away by reason of a falling exchange? In the midst of this uncertainty, moreover, how can a foreign bank place on loan in Chile the funds it receives in the form of deposits in Europe? This evil of the Chilean rate of exchange can be remedied only by the reformation of the monetary system. As long as a *régime* of paper currency subject to constant fluctuations of value is maintained, foreign capital cannot enter the country to be placed on loan or invested in securities. The only way to render capital exempt from the dangers created by these fluctuations of exchange is through the establishment of industrial enterprises, such as nitrate companies, mining companies, cattle-raising companies, etc.

The second reason why the foreign banks have not served as commercial channels for the conveyance of foreign capital into the country lies in the very nature of the banking operations. As a matter of fact, the profit of the banker consists, not so much in the interest he obtains from his own capital, as in the earnings he derives from the deposits made by the public. The operations of the banker are conducted chiefly with other people's money, so that, the less the amount of his capital in comparison with the amount of his deposits, the greater the amount of his profit.

In the preceding chapter we saw how in 1912 the *Banco Alemán Transatlántico* alone, in its negotiations in Chile, Argentina, Uruguay, and Peru, had deposits amounting to more than 132,000,000 marks and a capital of only 25,000,000 marks. Prior to the war this same bank had in Chile, according to its balance statements, deposits amounting to more than 50,000,000 *pesos* and a capital of only 5,000,000 *pesos*.

According to the balance statement of December 31, 1913, that is, before the disturbances brought about by the war, the foreign banks established in Chile (of which there were six—the *Anglo-Sud-Americano*, the *Alemán Transatlántico*, the *Chile y Alemania*, the *Germánico de la América del Sur*, the *Londres*

y Río de la Plata, and the *Mercantil de Bolivia*) had deposits and capital totalling :

	Paper *pesos*	Gold *pesos* of 18*d.*
Deposits	94,604,919	28,060,408
Paid-in capital . . .	16,639,207	8,267,973

Reducing these gold *pesos* to paper *pesos* of 12*d.*, we find that with capital aggregating a little more than 29,000,000 paper *pesos*, they received deposits from the public totalling more than 136,000,000 paper *pesos*, so that the ratio of the capital to the deposits was approximately 1 : 4·6.

At the same time the national banks had deposits and capital totalling :

	Paper *pesos*	Gold *pesos* of 18*d.*
Deposits	316,055,823	33,041,352
Paid-in capital . . .	142,271,047	502,000

Likewise reducing these gold *pesos* to paper *pesos* of 12*d.*, we find that with capital aggregating 143,000,000 paper *pesos* they received deposits from the public totalling approximately 365,000,000 paper *pesos*, so that in this case the ratio of the capital to the deposits was approximately 1 : 2·5.

Prior to the establishment of the foreign banks, the profits made by the national banks in these operations of receiving deposits at a low rate of interest and then lending out the funds so obtained at a higher rate of interest benefited the residents of the country ; but after the establishment of the foreign banks, these profits passed more or less into the possession of foreign countries.

When foreign capital is brought into Chile for the carrying out of large industrial enterprises, such as the development of mines or for the realization of siderurgical exploitations, there results from this a positive benefit to the country, which has neither the necessary amount of capital nor the necessary number of technically trained men to enter upon such undertakings on its own initiative. The same does not apply, however, to small industries of very simple organization and technical management, such as banks and insurance companies, which have no need of foreign capital.

Moreover, one must note the lack of reciprocity that has existed between the liberal policy of the South American countries with respect to the establishment of foreign banks and the restrictive policy of the European countries with respect to the establishment of South American banks. The *Banco de Chile,* for instance, which has an agency in London, undertook to establish another in Paris ; but so great were the difficulties created, and so high was the tax it was proposed to levy upon it, that it was compelled to renounce the project.

With regard to the foreign banks that have conducted operations in Chile it is only fair to say, in the first place, that they have regularly been very well managed. They have placed at the head of their administration thoroughly competent men who have seen to it that their functions are well performed ; and in this way they have not only given the country the benefit of a good banking service, but at the same time have set a good example for the national banks, the administration of which has not always been equally commendable. In this sense the influence of the foreign banks could not help being beneficial.

From the standpoint of international commerce, and, in general, from the standpoint of the economic relations between South America and Europe, the foreign banks have constituted a factor of great importance. The German banks have greatly facilitated commercial negotiations between Germany and Chile, and at the same time have greatly favoured the development of certain German enterprises organized in Chile. They have also occupied themselves with various credit operations with the Government of Chile, such as loans in the form of bonds offered for sale in the German markets. It was these German banks, moreover, which negotiated with the Government of Chile the deposit of a large part of the conversion fund placed in the great German banks.

The English banks, especially the *Anglo-Sud-Americano,* have likewise rendered very valuable services in the development of the commercial relations of Chile and Great Britain.

It was only a short time ago that the National City Bank of New York began to conduct operations in Valparaiso, and

at the present time it also has a branch office in Santiago. This institution is destined to do much toward developing the commercial relations between the United States and the republics of South America. A well-managed bank, such as this one must necessarily be, may promote Pan-American commerce in a truly extraordinary manner. If, for example, a merchant or manufacturer residing in Chile, and possessing no credit relations with the United States, has need of some foreign merchandise, or has to manufacture some special kind of machinery, the National City Bank, subject to the procurement of the proper guarantees, will take charge of the order in the United States; and, having done this, it will transport the merchandise to Chile and deliver it to the merchant or manufacturer who placed the order.

The export trade in nitrate, metals, agricultural products, and other Chilean articles of merchandise for which there is a more or less regular demand in the markets of the United States or Europe may also be developed through these foreign bank agencies established in Chile, as also through the agencies of Chilean banks established abroad.

International commercial relations are developing more and more every day. The modern economic world differs greatly from the former economic world in this international commercial-industrial aspect. If formerly it was possible for groups of people to live in a certain isolation, it is now no longer possible; a complicated network of economic relations holds them all together in such a way that no one group can long continue to exist, under satisfactory conditions, without the co-operation of the others. Under these circumstances it is not surprising that banking operations have also become, in a certain sense, international.

One practical means of unifying Pan-American policy, therefore, would be for the republics of the two Americas to resolve upon the concession to one another of ample and reciprocal facilities for the establishment of banking agencies.

CHAPTER XXXIX

MONETARY DEVELOPMENTS FROM 1907 TO 1913

At the end of the year 1907 the bankers again began to complain about the scarcity of notes. The *Caja de Emisión* which was created by the law of that same year, as we saw in chapter xxxv, and which was destined to issue notes against deposits of gold at the rate of 18*d.* per *peso*, was not functioning for the reason that the rate of exchange in December 1907 was around 9·5*d.* Despite the right of recovering the gold deposited through the devolution of the notes issued, it was altogether too onerous to deposit 18*d.* in order to acquire the right to issue a note worth only 9·5*d.*

In order to remedy this situation for the banks recourse was not had to another issue of treasury notes, as was done before, but on December 24, 1907, there was passed a law containing the following provisions :

The government was authorized to issue treasury notes payable to bearer in denominations of 5,000, 1,000, and 500 *pesos*. These notes were in reality genuine treasury notes, since they did not bear interest and were legal tender for the settlement of all debts contracted in paper currency.

These treasury notes could be issued only to the banks which solicited them on loan, with the understanding that they were to be secured by bonds of the mortgage banks quoted at 90 per cent. of their market value. Furthermore, the banks were to pay for the use of these notes a rate of interest 3 per cent. less than that which they charged to their debtors.

Inasmuch as the rate of interest which the bankers were in the habit of charging to their debtors was around 9 per cent., it follows that they would have to pay the government 6 per cent. for the notes they received.

Of the various expedients which were resorted to in this period, which began in 1907, to the end of giving the monetary system the necessary elasticity and thereby doing away with the system of periodical issues of paper money which had been

followed since 1904, that which produced the most practical results was the issue of the treasury notes to which we have just referred. The approval of this law sufficed to inspire the banks with new confidence, since they had continually seen hanging over their heads, like the sword of Damocles, the danger of sudden withdrawals of deposits, without their being able to provide themselves with the notes necessary to meet the demands placed upon them. None of the banks found it necessary to solicit the treasury notes during the entire first year of the legislative authorization. As the notes were issued to the banks at a relatively high rate of interest (6 per cent.) it did not behove them to resort to their use except under extraordinary circumstances. The expedient worked, it may be said, in a somewhat psychological manner, that is, by suggestion, since it enabled the government to calm the apprehensions of the banks without having to issue any more notes. At all events, this law shows that the inflationist policy was already beginning to grow weaker. It was the first time that the demands of the banks were not supplied simply by means of further issues of treasury notes.

The rate of exchange, as may be seen from the table which we reproduce further on (chapter LV), had fallen to 9*d.*

The financial status of Chile has been favourable since the year 1881, the time of the beginning of the development of the nitrate industry, which has afforded the government a source of considerable revenue proceeding from the payment of the heavy export duty, as may be seen from chapter LXIII. Thus it is not necessary to attribute the depreciation of the paper *peso* to lack of confidence in the solvency of the government. As we have already seen, moreover, the government had at that time, as it has now, a large gold fund deposited in first-class foreign banks and intended to be used exclusively for the conversion of its paper currency.

In 1911 the banks again began to complain about the scarcity of notes. But as the current of opinion running counter to the inflationist policy of increasing the issues of treasury notes had become very strong, it was decided to seek other less

dangerous means of giving the monetary system the necessary elasticity. Instead of resorting again to the expedient of authorizing the issue of non-interest-bearing notes to the banks which solicited them, however—an expedient which was at all events harmless, as was proved in 1907—the government had recourse to a modification of the *Caja de Emisión* likewise created in that same year. We have already seen how this institution was created (chapter xxxv), and how it was destined to issue notes against deposits of gold at the rate of 18*d.* per *peso*; also how it issued certificates for which the bearers thereof could recover their gold by the devolution of notes in equal proportion. Since the rate of exchange was around 10*d.*, this right of issue under a guarantee of 18*d.* proved to be very onerous, so that the banks were in favour of having the law governing the *Caja de Emisión* modified in such a way as to facilitate its operation.

As a result of their negotiations there was passed, and approved by the government, the law of May 11, 1912, the more important provisions of which may be summarized as follows:

In the first article it was provided:

From the time of the promulgation of this law the *Oficina de Emisión* (the same institution which the law of 1907 called the *Caja de Emisión*) shall deliver to the national or foreign banks established in the country legal-tender notes at a fixed rate of one *peso* for each twelve pence in exchange for gold deposited in the National Treasury in Santiago or in the Foreign Treasury of Chile in London.

When the paper *peso* of legal tender is quoted at more than twelve pence, the banks shall be under obligation to deposit in gold in the corresponding treasury, over and above the twelve pence specified in the preceding paragraph, the amounts which the President of the Republic shall fix with a view to maintaining the correlation between the said deposits and the rate of exchange. . . .

The gold deposited shall be set apart exclusively for the redemption of the notes issued, and shall be conserved under the guarantee of the state, which shall be able to maintain it in trust in its vaults or to deposit it in the Bank of England, or in the banking house of N. M. Rothschild & Sons, or in any other first-class bank.

On making the deposits the banks shall receive a nominal certificate,

which they shall have to return upon demanding the redemption of the notes in the corresponding amount of gold, which shall be returned to them in the treasury in which they have made the deposit within thirty days after demand. The said certificate shall be transferable without prejudice to the obligations of the ceding bank.

No bank shall be able to obtain an amount of treasury notes exceeding the amount of its paid-in capital.

The notes returned to the *Oficina de Emisión* shall be retired and cancelled.

This law modified the *Caja de Emisión* created by the previous law of August 27, 1907. In the first place, it reduced the amount of the deposit in gold which was demanded for the issue of notes from 18*d.* to 12*d.* per *peso*. As regards the demand that this amount of gold be completed in case the rate of exchange rose above 12*d.*, the probability of this was looked upon as so remote that it could practically be considered that a deposit of 12*d.* per *peso* sufficed for the acquisition of the right to issue notes.

In the second place, the right of issue through the mediation of this *Oficina de Emisión*, having been conceded by the previous law of 1907 to anybody, was restricted by this new law of 1912 exclusively to the banks ; and at the same time the amount issued was limited to the amount corresponding to the paid-in capital of each bank. The system of the nominal certificate delivered to the depositor of gold was maintained, the said certificate giving him the right to recover his gold upon the devolution of the notes issued.

The system of certificates delivered to depositors of gold afforded them a sort of protection against exchange fluctuations. This method of establishing a stable rate of exchange benefited only certain banks or individuals who were able to secure for themselves the right to recover their notes at a fixed rate of exchange. But what is needed in a good monetary system is stability of the rate of exchange for all persons who have to do business on credit. In the current system the gold is used for the redemption of any note with the object of maintaining the value of all the notes in circulation ; in this system of the *Oficina de Emisión*, however, the gold is used

solely for the redemption of the notes of certain persons bearing certificates of issue.

On the other hand, this idea of conceding the right to issue notes to persons who deposit gold in the London banking house of Rothschild, or in any other large European bank, almost signifies the concession to those foreign banks of the right to issue notes in Chile. If Rothschild, for example, opened a credit in a Chilean bank or in a Chilean agency of a European bank for the amount of £200,000 sterling, these £200,000 sterling were left deposited in the same house of Rothschild at the order of the Government of Chile; and as the latter did not retire these funds from the said house, but left them deposited in it, the operation proved quite simple. When the *Caja de Emisión* was created, in 1907, in order to do away with the possibility of these credit operations, it was provided that the deposits made in London were to be credited to a special account opened in the Bank of England, an institution in which it is not possible to conduct credit operations of the kind to which we have just referred.

At that time I entered the Ministry of Finance for a few months, and while I was there it devolved upon me to establish this provision in a regulation; but a short time afterwards one of the many Ministers who have held the office modified this provision relating to the deposit of these funds in the Bank of England and permitted them to be deposited, as did the law of 1912, in various other credit institutions.

This idea of authorizing the issue of legal-tender notes to banks which deposited gold abroad under the conditions aforesaid, placed the Chilean banks in a very disadvantageous position, since it was not easy for them to procure gold or credit in London. For this reason the *Caja* or *Oficina de Emisión* was an institution especially favourable to certain large foreign banks which had established agencies in Chile and enjoyed great credit in London.

Glancing at the table indicating the operations of the *Oficina de Emisión* in the year 1913, published in the *Memoranda of the Ministry of Finance*, we find that in that year the banks deposited £1,980,000 therein in London. Of this sum

£1,530,000 belonged to foreign banks which had special credit relations in London, where it was consequently convenient for them to make these deposits.[1] As regards the Chilean banks, it was easy for them to maintain gold deposits in London only when they were made by the government.

Meanwhile, the rate of exchange continued to fluctuate around 10*d.*, and every year that passed under these conditions was one more link added to the chain which served to bind the economic interests of the country to the depreciation of its paper currency.

In 1913 the same situation continued to prevail, the rate of exchange maintaining itself around 9·5*d.* The average rate of exchange from 1904 to 1914 had been around 12*d.*, whereas in the six preceding years (1898–1914) it had been around 10*d.*

With reference to the insecurity of the rate of exchange, I venture to reproduce here some remarks which I made in 1912 in my capacity as Deputy in the National Congress :

> Seldom have these disadvantages manifested themselves in Chile in a more serious manner than they are manifesting themselves now. For a number of years we have had a depreciated exchange which has fluctuated between 10*d.* and 11*d.*, and with respect to the future we know nothing save that it is not impossible for it to rise to 18*d.* or fall to 8*d.*
>
> This is an absolutely insupportable situation for a monetary unit. For who can close a contract in *pesos* which are today worth 11*d.* and tomorrow may be worth 18*d.* ? What person who does not wish to stake his labour and capital in a real game of chance can affix his signature to a long-term lease on a rural property ? What person who is not a ' plunger ' will contract for the purchase of a property to be paid for in annual instalments, if in reality he does not know in what kind of *pesos* he will have to make his payments ? Who can establish an industry on the basis of present prices, present salaries and wages, and present costs of production, if tomorrow prices go down with a rise of exchange, and after the calculated basis of his business has been completely distorted he finds himself obliged to close the doors of his establishment or else to sell it at a ridiculously low price before abandoning it ? What person, on the other hand, will sell a property or tie up his labour in a contract, if he does not know whether the new exchange fluctuations of the future will be up or down ? Who is going to procure

[1] The banks which made these deposits were the following : the *Chile y Alemania*, the *Germánico de la América del Sur*, and the *Alemán Transatlántico*, all of them German banks having very close credit relations with English banks.

any gold from abroad in order to deposit it at 11*d.*, if tomorrow he may find himself obliged to retire it at 18*d.* ? What incentive is there to save and economize in a country with such a currency ?

The import trade grows more and more insecure as the rate of exchange grows less and less stable ; and if the great merchants and bankers can cover their exchange operations with purchases and sales of gold on time, the middle-sized and small merchants, on the other hand, suffer continually from the evils of the instability.

When the question comes up whether it would be a good or a bad investment for a person to use his savings for the purchase of such and such stocks or such and such properties, the whole thing hinges upon the movement of exchange. That is to say, every contract entered into at the present time involves a grave element of speculation with respect to the rate of exchange.

Our *peso*, the monetary unit which we use to measure values, that is, to evaluate purchases and sales and credit operations, is a measure of value as dangerous and absurd as would be a metre which might double in length or shorten to nothing.

If it has always been a desideratum for us to stabilize our rate of exchange, today it is an indispensable condition for our political stability and economic development.

CHAPTER XL

THE DEVELOPMENT OF BANKING OPERATIONS IN CHILE

At this point it seems opportune to reproduce some figures showing the development of banking operations in Chile since 1903, the year in which these data began to appear in the official statistics :

Abstract of Bank Balances on December 31 of the Years 1903–12 [1]

Year	Deposits (gold and legal currency)	Paid-in capital	Reserve fund	Loans
1903 . .	136,285,000	54,739,000	5,368,000	162,860,000
1904 . .	171,240,000	65,352,000	8,619,000	201,691,000
1905 . .	314,240,000	79,947,000	26,904,000	312,824,000
1906 . .	289,327,000	143,803,000	23,633,000	450,312,000
1907 . .	415,205,000	124,040,000	25,765,000	478,548,000
1908 . .	415,253,000	130,581,000	25,095,000	468,183,000
1909 . .	395,726,000	118,397,000	26,072,000	484,514,000
1910 . .	457,396,000	118,061,000	26,979,000	537,004,000
1911 . .	524,433,000	160,101,000	44,170,000	685,781,000
1912 . .	429,614,000	168,677,000	56,677,000	623,927,000

[1] In *pesos* of the legal currency.

In the above table no distinction is made between gold *pesos* of 18*d.* and current paper *pesos*, all the figures being expressed in the latter. Since 1912 banking statistics have been compiled and published in such a way as to indicate separately the operations conducted in gold *pesos* and in paper *pesos*. We reproduce below, accordingly, another table indicating the development of the banking operations since 1912.

CAPITAL AND RESERVE FUNDS OF BANKS, 1912–17

Year	Paid-in capital		Reserve funds	
	Gold *pesos* of 18*d.*	Paper *pesos*	Gold *pesos* of 18*d.*	Paper *pesos*
1912 . .	9,267,000	153,200,000	1,457,000	54,243,000
1913 . .	8,767,000	158,910,000	1,638,000	55,755,000
1914 . .	3,767,000	165,511,000	2,417,000	52,696,000
1915 . .	3,767,000	165,966,000	2,862,000	54,732,000
1916 . .	6,007,000	169,360,000	7,705,000	56,038,000
1917 . .	8,458,000	193,862,000	9,257,000	77,573,000

BANK DEPOSITS, 1912–17

Year	Paper *pesos*			Gold *pesos* of 18*d.*
	Checking accounts	Time deposits	Total	
1912 . .	224,753,000	204,860,000	429,614,000	51,974,000
1913 . .	221,525,000	189,135,000	410,660,000	61,101,000
1914 . .	216,672,000	174,881,000	391,553,000	68,669,000
1915 . .	223,360,000	209,125,000	432,485,000	65,952,000
1916 . .	241,739,000	225,755,000	467,494,000	86,462,000
1917 . .	265,968,000	233,589,000	499,558,000	121,001,000

BANK LOANS, 1912–17

Year	Paper *pesos*	Gold *pesos*
1912 . .	585,257,000	49,723,000
1913 . .	573,742,000	57,784,000
1914 . .	512,512,000	49,235,000
1915 . .	559,617,000	45,904,000
1916 . .	561,876,000	45,904,000
1917 . .	630,890,000	79,316,000

CHAPTER XLI

THE CONVERSION FUND

The Government of Chile has maintained a gold fund set apart for the redemption of the treasury notes, for which reason it has been called the Conversion Fund.[1] This fund has been kept on deposit in several large foreign banks, and on December 31, 1913, its status was as follows:

Deutsche Bank (Berlin)	91,511,050 marks gold
Diskonto-Gesellschaft (Berlin) . . .	44,082,495 ,, ,,
Dresdner Bank (Berlin)	10,459,572 ,, ,,
N. M. Rothschild & Sons (London) . .	785,615 pounds ,,

The total amount of the fund in English money is £7,901,236 sterling, which in Chilean money is equivalent to 105,494,222 *pesos* of 18*d.* The deposits bear interest at the rate of 3·5 per cent. per annum, and according to the provisions of the law they are not to be used for any purpose other than the redemption of paper in gold.

The Conversion Fund in 1913 was sufficient in amount to convert the outstanding treasury notes for a value in gold exceeding 12*d.* per *peso*, as may be confirmed by dividing 7,901,236 by 150,000,000—the former number representing the amount of the Conversion Fund in English pounds sterling and the latter the amount of the paper *pesos* in circulation. Thus it was not lack of confidence in the solvency of the government that caused the fall of exchange.

In connexion with this Conversion Fund it is interesting to note that the Government of Chile, when it contracted for the deposit of this money in the German and English banks, had very clearly stipulated that the deposit be in gold, that is, in so many kilograms of fine metal. This precaution was taken in case any of the states to which these banks belonged should modify their monetary system or inaugurate a paper *régime*;

[1] The laws of December 29, 1904, and May 23, 1906, to which we referred in chapter XXXV, together with increasing the issue of treasury notes, provided for the formation of this Conversion Fund.

and this forethought turned out to be very advantageous a little later on, at the outbreak of the World War.

In spite of the stipulation, however, the experience of the war years demonstrated that if the Government of Chile had desired to withdraw its gold from either the German or the English banks it would have been unable to do so ; for inasmuch as the exportation of gold from those countries was prohibited by law, a *force majeure* impeded the execution of the contract. As we shall see further on (chapter XLIX), however, by means of a fortunate operation, the Government of Chile was able to withdraw its deposits from the German banks and transfer them to England while the war was in progress—which, in view of the outcome of the war, was undoubtedly very advantageous.

CHAPTER XLII

THE REPORT OF THE MONETARY AND BANKING COMMISSION OF THE GOVERNMENT OF CHILE

THE Government of Chile had appointed a special commission, composed of some professors of the University of Chile, some bank directors, the President of the *Caja de Crédito Hipotecario*, and some senators and deputies who were especially interested in economic questions, to make a study of the country's monetary system and submit a summary of the reforms which in their judgement seemed necessary or desirable. In 1913 this commission was called upon to make a report ; and after a lengthy discussion this report was agreed upon and signed (June 11, 1913), it having devolved upon the writer, as a member of the commission, to do the work of editing it.

The first decision at which the said commission arrived was that it was necessary substantially to modify the monetary system with reference to the following points : (1) the stability of exchange ; (2) the elasticity of the currency (adjustment of the circulating medium to the requirements of the market). With these two objects fixed, the next step was to decide upon the measures to be adopted for their realization.

The first question that had to be answered was the following : What rate of exchange should be adopted to effect the stability of exchange ? A large majority was opposed to the idea of returning to the rate of 18*d.*, which constituted the par or nominal value of the paper *peso*, on the ground that so high a rate, after so many years of depreciation, would have serious disadvantages. In the first place, it would cause grave disruptions in credit transactions already entered into at the low rates of exchange ; and, in the second place, far from constituting a solution of social justice, it would rather constitute a veritable injustice, since it would result in the enrichment of persons who had not been injured by the depreciation of the currency.

This was in reality one of those points which have been settled by monetary science, in accordance with the experience of various countries such as Austria, Russia, and the Argentine Republic.

What rate of exchange was accordingly to be adopted for the reformation of the Chilean monetary system ? This is not one of those problems which have a single mathematical and incontrovertible solution. Wherever the same problem has presented itself in a practical way, as in Austria, Argentina, Brazil, etc., there have always been differences of opinion regarding its solution, some favouring a higher and others a lower rate. In the Chilean Banking and Monetary Commission with which we are concerned, there were also two currents of opinion : the one group inclined toward the rate of 12*d.*, and the other toward the rate of 10*d.* The rate of 10*d.* per *peso* was originally adopted on the basis of a majority of votes, although subsequently, as we shall see, the general rise of prices permitted a decision in favour of the higher rate of 12*d.*

At that time the rate of exchange was 9·5*d.*, while the average rate of the six preceding years had been as follows :

1907	12·75*d.*
1908	9·62*d.*
1909	10·78*d.*
1910	10·78*d.*
1911	10·62*d.*
1912	10·12*d.*

The commission afterwards continued to study the best method of stabilizing the rate of exchange. The idea of re-establishing the circulation of gold, as had been done in 1895, was rejected for the reason that the maintenance of the circulation of paper was considered preferable. In regard to this matter the report contains the following statement :

> After the experiences undergone in other countries, as in Austria-Hungary since 1900, in the Argentine Republic and Brazil with their conversion funds, in the Philippines, in India, etc., it may be said that there is absolutely no doubt of the practical possibility of maintaining a circulation of paper notes and silver, nickel, or copper subsidiary currency with an exchange as stable as that of countries on a strictly gold basis.

The system here referred to, which has been called the ' gold exchange standard ' in contradistinction to that of the actual circulation of gold, which would be the old ' gold standard ', offers many advantages to Chile. In the first place, it does not necessitate nearly as large a stock of gold. When gold coins are in circulation, there is a tendency on the part of certain persons to hoard them, whereas in the case of paper currency there is of course no such tendency. The Argentine Republic initiated its conversion fund without counting upon a gold fund, which would have been impossible if in place of a conversion fund it had decided to establish the circulation of gold.

The system of the circulation of paper is more economical than that of the circulation of gold, for the reason that it requires less gold for its operation. If with paper currency, which costs so little to produce, it is possible to satisfy the monetary requirements of a country under favourable conditions, why resort to gold to replace it ? A conversion fund, or any other institution intended to stabilize exchange, must also have a certain amount of gold at its disposal. But in this case the gold remains on deposit, suffering no abrasion as a result of use and demanding no coinage expenses. If by being more economical it is understood that, giving equal results, it is nevertheless less expensive, we are to conclude

that the system of the circulation of paper at a fixed rate of exchange, that is, the ' gold standard ', is preferable to that of the circulation of gold.

The only reasons in favour of the circulation of gold are of an aesthetic and hygienic character, and they unquestionably do not compensate the social-economic sacrifices necessary to secure it.

When gold is the sole money possessing the quality of legal tender in circulation, as was the case in Chile in 1895, the banks are more exposed to runs brought about by movements of distrust on the part of their depositors, who hasten to withdraw their gold for the purpose of keeping it in their own safes. This danger was very real for Chile after the fall of the gold *régime* in 1898, when the depositors did not succeed in withdrawing their gold in time and were consequently obliged to accept payment in depreciated notes. The memory of this has not yet died out.

The Conversion Fund of the Government of Chile was more than sufficient to ensure the success of this operation. This gold, or at least a large part of it, could be taken in large foreign banks, and the institution destined to stabilize the exchange would draw bills of exchange on it and sell them to holders of notes. The said institution, which in the bill with which we are concerned was called the *Caja Central de Emisión y Conversión* (Central Emission and Conversion Fund), would then have the right to redeem the notes either in gold in Chile or else in bills of exchange drawn on London or New York. In this case the cost of transportation and insurance, as well as of packing and shipping the gold from Santiago to London or New York, would naturally be deducted.

Those who desired notes in exchange for gold would have to deposit the gold here in Santiago, or else in London or New York, on a special current account which the projected institution would open for that purpose, and upon which it would draw its bills of exchange for the redemption of notes, when the public so demanded.

The report of the commission added :

The *Caja Central de Emisión y Conversión* shall be under no obligation to give notes against bills of exchange, but it shall have the right to purchase bills when, on account of an abundance of bills in the market, there is a decline in their price ; similarly, it shall have the right to sell bills when there is a scarcity of them in the market.

The essential condition of the operation of selling bills of exchange is the retirement of notes which enter the *Caja Central* through this chapter.

When the exchange market is unfavourable to the country, on account of the demand for bills of exchange to make payments abroad, gold deposits at the *Caja Central* in demand for notes shall be suspended. The public shall give notes for gold or bills of exchange and contraction will result almost immediately from the diminution of the money. Interest rates will go up, and this in turn will serve to attract foreign gold, which will re-establish the equilibrium.

After this the commission took up the manner of securing a greater elasticity in the monetary system, its report reading as follows :

Wherever gold circulates in conjunction with bank notes, elasticity of circulation is produced in two ways : by an increase or decrease of the quantity of gold currency constituting the national circulation; and by an increase or decrease in the issue of bank notes. . . .

With a conversion fund such as that of the Argentine Republic, elasticity is produced by an increase or decrease of the treasury notes realized by the fund itself, which is equivalent to an increase or decrease of the gold currency in circulation.

In the project of the *Caja Central de Emisión y Conversión* which we recommend, we have given greater facilities for the issue of notes than those given in the Argentine Republic.

In practice the authorization to issue notes against gold deposits in Europe does away with the necessity of transporting the metal, which, besides being more economical and less onerous, is at the same time more rapid—a circumstance of which the banks may take advantage when they are in need of notes.

Furthermore, in Article 5 we have authorized the *Caja* to issue notes up to the amount of fifty million *pesos* in operations of bank discounts with the due guarantees.

In these operations the *Caja* serves as a sort of central bank of issue, which attends to the internal necessities of the monetary circulation.

At times of scarcity of funds the banking institutions will be able

by rediscounting the better documents in their portfolios, to provide themselves with funds without having to deposit gold.

This issue of fifty million *pesos*, in spite of not being covered with gold, does not weaken the solidity of the institution in the slightest degree.

In a circulation of notes exceeding two hundred million *pesos*, there is no imprudence whatsoever in permitting this difference.

Finally, the committee determined how the institution charged with these functions was to be organized. Its report reads as follows :

After a careful consideration of the nature of the institution which is to take charge of these monetary functions, as well as of the practical conditions of political and economic life, we placed ourselves in accord as regards the creation of a special institution to be called the *Caja Central de Emisión y Conversión*, directed by an administrator assisted by a council.

This *Caja Central*, like those of Argentina and Brazil, would be an institution of the state, but would be independent of the government, just as the *Caja de Crédito Hipotecario* is today.

Some of the signers of the present report expressed the belief that a properly constituted bank of issue would have been able advantageously to exercise these monetary functions, which are in reality very closely bound up with the banking functions. But owing to a lack of unanimity concerning the organization of the bank, as well as the danger which in our judgement surrounds some of the ideas advanced, and considering the practical aspects of our political life, the consensus of opinion came to favour the idea of the *Caja Central de Emisión y Conversión*.

The principal functions of this *Caja* will be strictly regulated by law, since the most important of them will be that of issuing notes against deposits of gold in a manner similar to that practised in the Argentine Republic and in Brazil, so that the administration will have to be as simple as possible.

The very requirements of the market will mark out the route for it in what we might almost call a mechanical manner.

We reproduce at this point the five first and principal articles of the law [bill] which the commission proposed :

Article 1. There shall be created, under the name of the *Caja de Emisión y Conversión*, an autonomous institution charged with giving stability to the rate of exchange and elasticity to the circulation under the guarantee and protection of the state.

The said institution shall not perform any other operations than those expressly defined in this law.

ART. 2. The actual issue of treasury notes and the gold funds set apart for their redemption shall remain in charge of the *Caja de Emisión y Conversión.*

ART. 3. The *Caja de Emisión y Conversión* shall issue legal-tender notes which shall be delivered to any person soliciting them, on condition of the deposit of gold legitimately coined in Chile or in other countries designated by the Council of the *Caja,* with the approval of the President of the Republic and at the rate of 0·36601 grams of fine gold per *peso.*

These deposits of gold shall be made in Chile in the offices of the *Caja* in Santiago or in the National Treasury of Chile in London.

ART. 4. The *Caja de Emisión y Conversión* shall pay at sight to the bearer the notes which are presented for this purpose, either in gold at the rate of 0·30509 grams of fine gold per *peso,* or in bills of exchange drawn on London at the same rate, less the cost of transportation, insurance, interest and commissions which the shipment of a corresponding amount of specie to that place would amount to.

The said cost shall be periodically fixed by the Council of the *Caja de Emisión y Conversión,* with the approval of the President of the Republic.

ART. 5. The *Caja Central* shall further be authorized to conduct the following operations:

(1) To issue legal-tender notes up to the amount of fifty million *pesos* in excess of the total amount of gold funds destined for the redemption of notes.

These legal-tender notes shall be used only in the operations authorized in the following paragraph:

(2) To discount drafts payable in not more than ninety days, subscribed in favour of banks constituted in conformity with the laws of Chile whose paid-in capital is not less than five million *pesos,* and indorsed by the said banks as solidary co-debtors. There shall be admitted to discount only those drafts or bills of exchange which proceed from commercial operations or obligations at ninety days and are guaranteed by first-class securities qualified by the Council of the *Caja de Emisión y Conversión* and estimated at not more than 75 per cent. of their local current value. The rate of discount shall be periodically fixed by the Council of the *Caja,* and shall in no case be less than the current rate paid by the banks for six months' deposits.

(3) To issue legal-tender notes which shall be used exclusively to purchase first-class bills of exchange drawn on foreign

countries, paying for them a price in notes not in excess of the proportion indicated in Article 3; and likewise to sell bills of exchange against cash payment in notes in the same proportion, less the cost of transportation, insurance, interest, and commissions referred to in Article 4.

(4) The notes received in payment for these sales, or for the cancellation of the obligations discounted in conformity with the preceding paragraph, shall be immediately withdrawn from circulation.

(5) To maintain the gold conversion funds, either in its own safes or custody, or in first-class banks in Europe or the United States, for a term not exceeding six months.

CHAPTER XLIII

THE CONVERSION FUND PROJECT APPROVED BY THE GOVERNMENT IN DECEMBER 1913

Since the revolution of 1891, which implanted the parliamentary form of government in Chile, one difficulty with which the country has constantly had to contend has been lack of ministerial stability. Rarely has a Minister of Foreign Affairs remained in office a full year. Meanwhile the executive power has grown extremely weak, so that on frequent occasions the President has not had the necessary influence to put through the passage of bills which have met with opposition in Congress.

It is also to be observed, on the other hand, that there does not exist in the Chilean parliament any regulation permitting the majority to overcome any opposition which a minority may make to new bills by prolonging the discussion thereof; that is, we have not introduced the proceeding called 'closure' or 'clôture', whereby a stop is put to further debate and the bill under consideration immediately brought to vote. At the present time there is no regulation of this kind governing debates in the Senate.

These two factors, the lack of ministerial stability and the absence of 'closure', account in large measure for the difficulties that exist in the country with respect to the passage of a bill that meets with any minority opposition.

The Minister of Finance who had charge of the portfolio at the end of the year 1913, having made a careful study of the monetary reforms, adopted the fundamental ideas contained in the report of the commission referred to in the preceding chapter; and being a man of action he prepared a bill which he submitted to the Senate on December 17, 1913. This bill provided for the creation of a special institution intended to stabilize the rate of exchange.

After a discussion of its wording the Senate finally approved the bill in its general lines, resolving to call the proposed institution the *Caja de Conversión* (Conversion Fund)—the same name as was given to the corresponding institution in the Argentine Republic.

As regards the rate of exchange adopted for the redemption of the paper currency, the bill provided:

> The President of the Republic shall fix, in accord with the Council of the *Caja de Conversión*, the rate of exchange at which the notes in circulation are to be redeemed, which rate shall not be lower than 10*d.* or higher than 12*d.* The rate shall be determined on the basis of the average rate of exchange during the six preceding months.

The Senate adopted the fixed rate of 12*d.*, and immediately passed the bill along to the Chamber of Deputies, where I, as a member of that body, had occasion to defend the ideas set forth therein and to support the government in its efforts to reform the monetary system.

After an animated discussion the bill was likewise approved by the Chamber of Deputies, but with a few modifications.

The rate of 10*d.* was adopted by the Chamber of Deputies, the actual exchange at that time being 9·5*d.*[1]

The *Caja de Conversión* was to take charge of the existing funds set apart for the conversion of the paper currency, as also of the note issues. It was to proceed to the redemption of the notes in gold, either by delivering the gold in its vaults, or, at

[1] In the report of the commission it was proposed that the *peso* should contain 0·30509 grm. of fine gold, which is equivalent to 10*d.* The bill submitted to the Chamber of Deputies speaks simply of 10*d.* per *peso*. It was undoubtedly more logical not to refer to a foreign currency, such as English pence, since in case the notes were declared inconvertible, or in case the English money were to decline in value, the Chilean monetary unit would have suffered a corresponding depreciation.

its option, by giving bills of exchange drawn on London or New York, as was stipulated in the report of the commission. It was also to issue notes for delivery to any person against deposits of gold, and to purchase first-class bills of exchange on foreign countries, and to issue notes for this purpose.

The *Caja de Conversión* of the Argentine Republic issued gold only against deposits of gold made in Buenos Aires, having no authority to purchase bills of exchange or to pay the notes in bills of exchange drawn on foreign countries, as did the projected *Caja de Conversión* of Chile.

In order to provide a more perfect elasticity of the paper currency in circulation, moreover, the Chilean *Caja de Conversión*, accepting the idea proposed in the report of the commission, was authorized to conduct certain discount operations with the national banks.[1]

Article 8 of the bill provided :

> The *Caja de Conversión* shall be able to discount obligations subscribed in favour of the national banks with capitals of not less than 1,000,000 *pesos*, provided the said obligations are endorsed by the bank which presents them as a solidary co-debtor.

These obligations were to consist of bills of exchange proceeding from commercial operations which the Council of the *Caja de Conversión* was in each case to qualify. Likewise other obligations payable to order were to be accepted, provided they were secured by first-class stocks or bonds.

In its function of discounting bills of exchange the *Caja de Conversión* of Chile was also to differ essentially from that of the Argentine Republic, which did not have this right. The projected Chilean institution was of the nature of a central bank destined to conduct operations with other banks and not with individuals.

The Chilean *Caja de Conversión* bill also contained a number of provisions intended to regulate the functions of the banks. For some time past there had been talk of the necessity of

[1] National banks in Chile are understood to mean banks constituted as incorporated companies. They differ from the foreign banks in that the latter are merely agencies of banking institutions established abroad.

passing a banking law, and it was desired to take advantage of the occasion for the purpose of introducing a few of the provisions thereof.

As will be seen, the bill in question, approved by the Senate and subsequently by the Chamber of Deputies, embodied the fundamental ideas contained in the Report of the Banking and Monetary Commission. In order that it might become a law, according to the constitution of Chile it had to go back to the Senate for reconsideration in the light of the modifications introduced by the Chamber of Deputies.

In reality, the most fundamental divergence between the two houses was in regard to the rate of exchange to be adopted, that of the Senate having been 12*d.* and that of the Chamber of Deputies 10*d.* The actual rate of exchange at that time having been 10*d.* that adopted by the Chamber of Deputies seemed more prudent and less likely to cause disruptions in the business world. Furthermore, it was well known that the Senate would not insist upon the rate of 12*d.*, that is, that it would accept the rate of 10*d.* approved by the Chamber of Deputies. It was expected, accordingly, that the bill would pass both houses and become a law. Moreover, inasmuch as there had been no ministerial crisis, the office of Minister of Finance was still held by the same man who had negotiated the passage of the bill with such zeal and felicity.

When the bill was returned to the Senate, however, a certain small group of the members thereof, or we might almost say one member thereof, obstructed it with a tenacity worthy of a better cause, basing his opposition on the old theories many times upheld by those opposed to the re-establishment of the gold standard. Their argument was that it would be impossible, given the economic status of the country, to maintain a *régime* of convertible notes, and that an effort to do so would inevitably result in another such calamity as that which occurred in 1898.

The opposition of this minority might perhaps have been overcome by insistence on the part of the government, which was not disposed to yield in the matter, had not an entirely unforeseen occurrence come to the aid of the enemies of the

bill and nullified everything that had been done. This was the declaration of war in Europe. As soon as the news of this calamitous occurrence was received, many of the partizans of the reformation of the monetary system thought that it would be inadvisable to take any radical steps under the uncertain conditions prevailing. The obstructionists were accordingly victorious; the discussion of the bill had to be dropped, despite the fact that it had already been approved, in its general lines, by both houses of parliament, and despite the fact that only the final procedure was necessary for its complete and definitive approbation.

Once more, therefore, the country fell back into the *régime* of inconvertible notes, the *régime* which had existed, except for the short gold period of 1895–8, since 1878.

CHAPTER XLIV

THE EFFECT OF THE OUTBREAK OF THE WORLD WAR UPON THE ECONOMIC AND MONETARY SITUATION OF CHILE

The first telegraphic announcement of the declaration of war in Europe naturally produced a great sensation in Chile, as well as in all the other South American republics. In the principal commercial and industrial centres the dominating thought centred about what course the conflict would take. The economic life of Chile, as also of South America in general, was so closely bound up with that of Europe that it could not fail to feel the shock which was necessarily produced.

The situation was at first acute, amounting to a sort of economic crisis or panic. The stock exchanges of Santiago and Valparaiso, which are institutions of a private character, that is, not belonging to or controlled by the state, resolved to close their doors for a few days. This avoided a demoralization of the market brought about by the necessarily low quotations of foreign exchange and of securities in general.

If we had been under a *régime* of gold currency or con-

vertible notes, there would undoubtedly have been a run on the banks; for the depositors, victims of the panic, would have deemed it expedient to withdraw their funds. Moreover, if the Conversion Fund, which was almost established at the beginning of the year 1914 and was intended for the redemption of the paper *peso* in gold at the rate of 10*d.*, had been in operation, it would have had to suspend gold payments during this first moment of the panic, as actually happened in the Argentine Republic.

The rate of exchange fell from 9·5*d.* to 7·5*d.* during the last months of 1914, that is, at the beginning of the great war.

Despite the fact that the country was on a paper basis, which lent no incentive to private hoarding, there was produced a certain tendency toward the withdrawal of bank deposits, which tendency, in the case of the German banks, came to acquire the character of a genuine run. Owing to the state of war, it was not easy for the banks to have recourse to European credit for the purpose of obtaining funds through the mediation of the *Caja de Emisión y Conversión.* Recourse was then had to the expedient which had been employed in 1907; that is to say, there was passed the law of August 3, 1914, which authorized the government to issue for the term of one year non-interest-bearing notes of the denominations of 5,000, 1,000, and 500 *pesos*, which it was provided were to be valid for the settlement of all obligations contracted in the legal currency. They might as well have been called, plainly and simply, inconvertible treasury notes, like all others, for that is what they really were.

These notes were to be delivered to the banks which solicited them, with the understanding that the latter were to pay to the state a rate of interest 3 per cent. less than that which the said banks charged to their debtors. Furthermore, the banks were under obligation to secure the loan made to them by a deposit of mortgage bonds.

It was a repetition of the law of 1907, which we saw in chapter XXXIX. This expedient created certain facilities for the banks, which were enabled to obtain notes in case of

necessity; and with its adoption a certain confidence was re-established, without the banks having to complain again about the lack of circulating media.

At the end of the term of one year, for which this authorization was to remain valid, it was extended one year more. The government looked upon this measure only as an emergency expedient, a means of escape from difficult situations. For this reason, therefore, when it had recourse to it the second time, it did so for a relatively short period. Meanwhile, in practice it was seen that this right of issue conceded to the banks under such onerous conditions could not constitute any threat of abuse. The acute crisis caused by the declaration of war had a serious effect upon the nitrate industry, which is the basis of Chile's export trade and the chief source of the public revenues. A grave paralysation of the exportation of nitrate—a product which before the war had been used almost exclusively for fertilizing the soil—was feared. Moreover, inasmuch as the credits which the European bankers and capitalists had been granting to the nitrate companies were now cut off, a number of the latter announced that they would be obliged to close their doors.

Accordingly, on August 12, 1914, there was passed a law authorizing the government to make loans to the nitrate producers up to a certain amount per *quintal* of nitrate; and as the government had no available funds, and as there was no central bank or any other institution of that kind, it was necessary to resort to the issue of treasury notes of the same kind as those authorized for the negotiation of bank loans. The nitrate producers were to pay interest on these loans at the rate of 6 per cent. per annum. The loans were at first authorized for a period of only one year; but afterwards the authorization was extended until the year 1920.

The amount that might be advanced in conformity with this law was limited to a maximum of 4 *pesos* of current money for each 46 kg. of nitrate ready for exportation at the ports, and a maximum of 3 *pesos* per 46 kg. of nitrate which the producers

had elaborated in their own plants. Moreover, a maximum limit for the totality of these operations was likewise fixed, Article 3 of the law, providing that 'in no case shall the total amount of the loans outstanding exceed the amount corresponding to the value of eight million *quintals* of nitrate'.

This assistance given by the state to the nitrate producers enabled many of them to proceed with the elaboration of the nitrate, and there is no doubt that without it they would have had to close down.

From the monetary point of view, on the other hand, this expedient involved no danger of an excessive increase in the issue of notes. During the acute stage of the crisis created in Chile at the beginning of the war, the movement of these loans was as follows: from August 13, 1914, to July 31, 1915, the amount of the loans authorized was $53,566,501; and during the same period returns were made (that is, payments of the producers to the government) amounting to $45,284,369. The government received more than $500,000 in the form of interest, and no difficulty or obstacle of any kind had obstructed the operations.[1]

The nitrate industry was not long in returning to its normal status, due, not to the demand for nitrate for agricultural purposes, but to the urgent demand created by the European belligerents in their desire to secure it for the manufacture of explosives; for if Chilean saltpetre is a highly valuable product for the peaceful purposes of agriculture, it is even more valuable for the destructive purposes of war.

The exportation of nitrate, constituting, as it does, the mainstay of the country's export trade and the principal source of the public revenue, having thus been normalized, the general economic situation of the government likewise became normal. The critical period which had begun with the declaration of the war came to an end and was immediately followed by a period of extraordinary economic and financial prosperity. The prices of Chilean articles of exportation underwent a pronounced

[1] Memorandum of the Minister of Finance of 1915.

increase in the foreign markets, as shown by the following figures :

PRICES OF REPRESENTATIVE CHILEAN EXPORTS, 1913–17

Article	1913	1914	1915	1916	1917
Nitrate (in shillings per *quintal*) .	11·1	10·2	12·7	17·9	..
Copper (in pounds sterling per English ton)	68·1	59·14	75·5	112·19	123·10
Wheat (in shillings per English quarter)	31·8	34·1	52·9	58·1	75·9

The exploitation of copper, in spite of the difficulties of transportation and of the shortage of fuel, could be maintained in the large centres of production of this metal. The country also has coal mines which produce sufficient coal for the maintenance of its railways and more important industries.

As regards foodstuffs, Chile has an agricultural production which is sufficient to satisfy the requirements of the domestic consumption, and ordinarily there is even a certain surplus left over for exportation. Thus the country was confronted with no serious problem with regard to this point.

Another effect of the war in Chile, as well as in the Argentine Republic and Brazil, was an unprecedented development of the manufacturing industry. The rise of prices affecting products which could not be procured from abroad except with great difficulty, stimulated the manufacture of many of them at home, with the result that a large number of industries which had previously led a languid life underwent a remarkable development during the years of the war. Among the industries which prospered especially by reason of their being able to obtain the necessary raw material in the country were the cement industry, which supplied the country with the majority of what it needed during the war for construction work, and the wool textile industry, which greatly increased its production ; besides these, the manufacture of glassware, furniture, footwear, etc., was also given a pronounced impetus.

The establishment of large industries, such as the iron industry and the manufacture of paper from wood obtained in

the great forests of the south, was prevented or hindered by the smallness of the consuming market. The population of Chile is not large enough to ensure a prosperous life to certain industries in which a large production demands, in turn, a large consumption. The republics of South America, especially those on the western side of the continent, will be able to surmount this difficulty only through the formation of customs unions permitting free trade among them. In this respect the Anglo-Saxon peoples on the continent of North America have manifested a practical spirit much more developed than that of their Latin brothers in the south.

As regards Chile's foreign trade, the following figures indicate the value (in gold *pesos* of 18*d.*) of the exports and imports in the years 1912–17 :

Value of Exports and Imports, 1912–17

Year	Imports	Exports	Difference of exports over imports
1912 . .	334,454,779	383,227,949	48,773,170
1913 . .	329,517,811	396,310,443	66,792,632
1914 . .	269,756,699	299,675,435	29,818,736
1915 . .	153,211,557	327,479,158	174,267,601
1916 . .	222,520,828	505,962,916	283,442,088
1917 . .	355,077,027	712,289,028	357,212,001

This table shows a great increase in the value of exports over the value of imports, and at the same time a great decrease in the imports. The increase in the exports was due, in the first place, to the increased exportation of nitrate, large quantities of which, as stated above, were required by the belligerent countries for the manufacture of explosives ; and, in the second place, to the increased demand for copper, likewise a very necessary war material. The decrease in the imports was due to the lack of European exportation and to the high cost of transportation.

The consequence of this balance of trade, so excessively favourable to Chile was a rise of the rate of exchange, that is, a great increase in the value of gold. In the exchange market there was produced an increase in the offer of bills of exchange

drawn on London and New York, and a corresponding decrease in the demand.

The determining cause of the non-approbation of the *Caja de Conversión* bill, the discussion of which was almost concluded when the news of the declaration of war was published, had been the fear that the economic and financial situation brought about by the war might be unfavourable. But as this fear, fortunately for the country, proved to be unfounded, the partizans of the Conversion Fund project believed that the time was ripe for insisting upon the approbation of the said bill.

After the year 1916, the rate of exchange, which for some years had fluctuated around 10*d.*, and which went down at the beginning of the war, began to rise again, as shown by the following figures :

1912	10·12*d.*
1913	9·75*d.*
1914	8·97*d.*
1915	8·25*d.*
1916	9·46*d.*

At the end of the year 1916 the rate of exchange had already risen above 10*d.* ; and in 1917 the upward tendency continued. But the government of that time was not in favour of the stabilization of the exchange, or of the Conversion Fund ; on the contrary, it was of the opinion that the value of notes, as reflected in the rate of exchange, should be allowed to go up freely.

When the exchange rose to 10*d.* and immediately passed to 11*d.*, with a marked tendency to reach 12*d.* or an even higher level, the partizans of the stabilization of the exchange again began to insist upon the advisability of taking advantage of these favourable circumstances for the purpose of realizing the monetary reforms.

In view of the rise of exchange to 12*d.* the partizans of the Conversion Fund project manifested a disposition to accept this rate of 12*d.*, since they were aware that public opinion would not have accepted a lower rate. Accordingly, those who had previously advocated the rate of 10*d.* were now disposed to accept the rate of 12*d.*

Various reasons were given in favour of the idea of realizing the monetary reform by means of a Conversion Fund. It was necessary to take advantage of the very favourable situation of the exchange market. In this situation the Conversion Fund would have limited its operations to purchasing the gold and the bills of exchange offered for sale and issuing notes against it; and in this way it would have accumulated, while the war was going on, a large stock of gold which would have been of great value afterwards, when the exchange market was unfavourable. The only disadvantage which might have been foreseen was that of an inflation of the monetary circulation caused by the large quantity of gold which the Conversion Fund would have had to purchase. The case would have occurred in which an excess of money might be considered an evil, even when it was an excess of money representing gold. On the other hand, there would have been obtained for the future the great advantage of ensuring the stability of the gold value of the monetary unit.

In one of the ministerial changes which then took place, and which are of such frequent occurrence in Chile, the portfolio of the Ministry of Finance was recovered by the same man who in 1914 had worked with such zeal for the passage of the law creating the Conversion Fund, with the result that the government again presented to Congress a demand for the approbation of the reform.

At that time the offer of bills of exchange was so great, and the demand for them so small, that a strong pressure was exerted toward the rise of exchange, so that the *peso* was quoted at more than 12*d.*; and as the end of the war was not in sight, further rises were to be expected.

Under these circumstances a strong current of opinion against the monetary reform was created by persons who considered that conversion at 12*d.* signified limiting the rise of exchange, or, in other words, a hindrance to the appreciation of the currency, with which it was held that the economic development of the country was bound up. There were many persons who looked upon the value of the monetary unit as a sort of barometer

indicating the degree of the country's prosperity; and who contended that to limit the appreciation of the *peso* was to limit the national progress. Certain labour groups allowed themselves to be deluded by such ideas; and, believing that stopping the rise of the gold value of the *peso* signified stopping the rise of wages, they likewise opposed the Conversion Fund and declared themselves in favour of allowing the exchange to rise to its highest level or to par.

Consequently, the opposition with which the project met in 1917 was even stronger than that with which it had met in 1914; and although the bill could count upon a good majority in its favour in the Chamber of Deputies, the minority was nevertheless able to assert itself and prevent its passage. As I have already observed, owing to the lack of the clôture proceeding it is very difficult in the Chilean parliament to bring about the adoption of reforms which meet with any minority opposition.

In 1917 the rate of exchange fluctuated as follows:

January	11·6*d.*	July	12·6*d.*
February	11·1*d.*	August	13·2*d.*
March	10·7*d.*	September	15·1*d.*
April	10·8*d.*	October	14·4*d.*
May	11·7*d.*	November	14·5*d.*
June	12·3*d.*	December	14·5*d.*

In 1918 it continued to rise, as follows:

January	13·9*d.*	April	15·6*d.*
February	13·9*d.*	May	16·7*d.*
March	15·1*d.*	June	17·2*d.*

It is interesting to observe that this enormous rise of exchange did not produce the disruptions which would naturally have resulted under normal conditions. The question may be asked: Why was it that debtors were not crushed under the weight of their debts? Why did not miners, nitrate producers, farmers, and manufacturers suffer greatly from this situation, which signified so great an increase in the cost of production, since wages and other expenses which were previously paid with exchange at 10*d.* were afterwards paid with exchange at 17*d.*? The answer is: Simply because there was produced,

together with the rise of exchange, and as an almost parallel phenomenon, a rise in the price of products of exportation (nitrate, copper, wool, wheat, etc.); and this permitted the export industries to continue the shipment of their products to foreign countries. As regards the commodities produced for the home market, the scarcity of similar articles imported from abroad, that is, the lack of competition with foreign industry, permitted domestic industry to sell its products at the same prices that had prevailed when the exchange was at 10*d.* In a normal situation, in the midst of competition with foreign industry, and with no world-wide rise of prices, the situation of the Chilean industry would have been truly insupportable in consequence of the rise of exchange, which, as we have seen, nearly doubled the gold value of the currency in circulation.

The rate of exchange continued to rise and threatened to go even higher than 18*d.*, that is, to a point even higher than that which had always been looked upon as coinciding with the par value of the paper *peso.*

In normal times an exchange of 19*d.* would have been impossible, because since the cost of transporting, insuring and packing the gold from London to Chile is ordinarily less than one penny, before the exchange could have been quoted at 19*d.* it would have been imported and the *peso* containing 0·599103 grm. of gold 0·916 fine, which is equivalent to 18*d.* in English money, would have circulated in the country. Under the conditions created by the war, however, it happened that the cost of transporting, insuring, and packing the gold for exportation to Chile was extraordinarily high, and especially that the exportation of gold was prohibited in England, Germany, and the other leading money markets of Europe. In England the *régime* of the gold standard had ceased to exist, and the pound sterling suffered a depreciation in the international exchange market. In view of all this, it is not an inexplicable phenomenon that the Chilean gold *peso* of 0·599103 grm. came to be worth, in Chile, more than 26*d.* in ninety-day bills of exchange drawn on London.

For that reason, if the circulation of gold had been

re-established, the Chilean rate of exchange would not have been 18*d.* but much higher, as happened in Spain and other neutral countries where gold was in circulation.

The Chilean gold *peso* has always had, and has now, a certain circulation, notwithstanding the *régime* of inconvertible notes. The government has been in the habit of collecting certain taxes in gold, and importers are likewise in the habit of selling their merchandise for gold. This gold does not circulate in practice, but it has a special quotation in the exchange market; and those who collect a stipulated debt in Chilean gold are made to pay in legal-tender paper with a surcharge corresponding to the premium on gold.

In order to show the difference between the value of 18*d.* in English money and the Chilean *peso* containing 0·599103 grm. of gold $\frac{11}{12}$ or 0·916 fine, we reproduce here the following table indicating the quotations of the Chilean market in the year 1918. In the first column we give the premium in favour of English money of 18*d.*; in the second column we give the premium in favour of Chilean gold money; and in the third column we give the difference between the premium in favour of Chilean money over English money.

CHILEAN MARKET QUOTATIONS, 1918

Month	Per cent.	Per cent.	Per cent.
January . .	28·7	57·7	29·0
February . .	29·3	63·8	34·5
March . .	18·8	61·0	42·2
April. . .	14·9	59·7	34·8
May . . .	7·8	56·3	48·5
June . . .	4·8	53·1	48·3

The value of the Chilean gold money, expressed in English money according to the quotations of the Chilean market in those same months, was as follows:

January .	22·09*d.*	April . .	25·00*d.*
February .	22·84*d.*	May . .	26·17*d.*
March . .	24·36*d.*	June . .	26·39*d.*

These quotations give the relation of values between a Chilean gold *peso* and the English money in ninety-day bills of exchange.

CHAPTER XLV

THE LAW OF MAY 22, 1918, REGARDING THE CAJA DE EMISIÓN

In 1918, as we have seen, the rate of exchange continued to rise; and as par was the re-establishment of the gold *peso* containing 0·599103 grm. of metal $\frac{11}{12}$ or 0·916 fine, which was quoted at an exchange value much higher than 18*d.*, it followed that if things went on as they were going, the rate of exchange might rise as high as 26*d.* or more per *peso*. These expectations of rises of exchange above 18*d.*, which had been looked upon in Chile as the par or maximum value of the paper *peso*, created considerable alarm among business men.

It will be remembered that the law of May 11, 1912 (chapter xxxix), authorized the banks to receive paper money in exchange for gold deposited at the rate of one paper *peso* for every 12*d.*, with the understanding that they were to complete their deposits up to 18*d.* in case of a rise of exchange. Why—the reader may ask—if the rate of exchange rose to 18*d.*, did not the banks deposit in London the 18*d.* per *peso* which the law demanded of them and retire in Chile the corresponding amount of notes of the *Caja de Emisión*, thereby preventing the rate of exchange from rising above 18*d.*? The banks would have been able to derive a good profit from this operation, for, since the *Caja* or *Oficina de Emisión* granted them a nominal certificate giving them the right to recover their gold by returning the notes, this certificate, in case of a depreciation of the latter, protected them against loss.

To explain this operation more fully, let us consider here a practical example. With the rate of exchange at 18*d.*, a bank would be able to buy bills of exchange drawn on London to the amount of £100,000 sterling for 1,333,333 *pesos*. It would send its bills of exchange to London with an order to deposit the £100,000 sterling in the Foreign Treasury of Chile in London; and upon receiving notice of this deposit,

which it was stipulated could be transmitted by telegraph, it would obtain here in Santiago, in the *Oficina de Emisión*, 1,333,333 *pesos* in treasury notes. If, after the war, the rate of exchange went down, let us say, to 12*d.*, as many feared would happen, it would suffice for the said bank to return to the *Oficina de Emisión* the same 1,333,333 *pesos* in treasury notes, together with the corresponding certificate of issue which gave it this right, and the *Oficina de Emisión* would return its £100,000 sterling in London, which, sold on the market at the exchange rate of 12*d.*, would yield 2,000,000 *pesos*. This operation would accordingly have resulted in a gain of more than 600,000 *pesos* for the bank.

How is it to be explained that the banks could allow the rate of exchange to rise above 18*d.* without realizing so advantageous an operation ? Simply because the law of May 11, 1912, stipulated, as will be remembered, that ' no bank shall be able to receive a quantity of treasury notes exceeding the amount of its capital '. On account of this restriction the banks feared that, if the war continued for several years more, this right of issue conceded to them might be exhausted, and that afterwards they might find themselves obliged to complete the deposit with the rate of exchange at 25*d.* or more. It was undoubtedly very delicate business, as the saying is ; but banks frequently reason in that manner. The truth is, however, that it was an excessive manifestation of prudence on the part of the banks, for in order to exhaust their right of issue it would have been necessary for them to issue around 150,000,000 *pesos* (a figure approximately representing their total capital) ; and this would have signified doubling the note circulation. Had it not been for this restriction of their right of issue, there would likewise never have been any possibility of a rise of exchange above 18*d.* or 18·5*d.*

The government was also alarmed by this pronounced rise of the rate of exchange, and especially by the danger of its rising above 20*d.* or even 26*d.* ; and knowing that the banks would not take advantage of the right of issue conceded to them, it submitted a bill to Congress, urged its immediate

passage, and promulgated it as a law on May 22, 1918. The fundamental provisions of this law were the following:

ARTICLE 1. From the date of the promulgation of this law the *Oficina de Emisión* shall deliver legal-tender notes to all persons who solicit them in exchange for gold deposited at the rate of 18*d.* per *peso* in the National Treasury in Santiago in conformity with the law of May 11, 1912.

The national banks shall be able to make the deposits referred to in the said law at the order of the Legations of Chile in Great Britain, the United States, Spain, or Argentina in any of the first-class banks designated by the President of the Republic.

There was maintained the provision of the law of 1912 relating to the 'certificate of issue', the said provision reading as follows: 'On making the deposits the banks shall receive a nominal certificate, which they shall return upon presentation of the notes for redemption in gold, it being understood that the gold shall be returned to them in the Treasury in which the deposits shall have been made.' In the new law of 1918 it was provided that 'the certificates issued by the *Caja de Emisión* [1] may be payable to order or to bearer, the amount deposited being specified on them'.

What did this law signify in practice? It did away with the limitation of the right of issue conceded to the banks, and consequently removed the only difficulty which prevented them from taking advantage of this right.

In order to issue notes, according to this law, the banks had either to deposit gold in the national Treasury in Santiago or else to make deposits in Great Britain, the United States, or other countries. Under the circumstances existing at that time, it is clear that all the banks that could do so would accept the second alternative, which was much cheaper than the first. As a matter of fact, gold in Chile was worth around 26*d.*, as we have already explained, whereas gold in London was worth only 18*d.* It was thus inconceivable that the rate of exchange should rise to 19*d.* as long as this law remained in force; for if it had any tendency to do so, the banks would have bought bills

[1] This *Caja de Emisión* is the same institution which in Article 1 of this law of May 11, 1912, is called the *Oficina de Emisión.*

of exchange and realized the operation set forth above. The most important practical effect of this law, accordingly, was the limitation which it placed upon the rise of exchange, which could not go above 18*d.*

Like previous laws, this law maintained the system of the ' certificates of issue ' granted by the *Caja de Emisión* to the bank or person making the deposit of gold. The ' certificate of issue ' gave its bearer the right to recover the gold deposited upon returning the notes issued. Hence the stability of exchange brought about by this law favours only the bank or person making the deposit and keeping the certificate. The public interest, that is, the social-economic interest of the country, is not furthered by this manner of stabilizing the rate of exchange. When the gold received by the institution which issues the notes (called the *Banco Central* or *Caja de Conversión*) is reserved for delivery to the bearer of them who solicits their redemption, there is realized a true stabilization of exchange ; and with it there is produced a general social-economic benefit, since in this way the rate of exchange is fixed and kept stable, not in favour of one person or group of persons, but in favour of everybody.

As regards the object of preventing the rate of exchange from rising above 18*d.*, as it threatened to do during the war, if the government wished to accomplish this purpose it would perhaps have been more logical for the government itself, that is, for the *Oficina de Emisión* itself, to have purchased all of the bills of exchange offered for sale at the rate of 18*d.* In this way it would have been able to acquire more gold for deposit in London or New York, thereby enlarging the Conversion Fund. What necessity was there that this operation should be realized by the banks ?

This law, like the preceding laws of that period, was merely an expedient adopted (and ill-advisedly adopted) to overcome a difficulty of the moment. It did not pretend to remedy the basis of the evil, which lay in the country's defective monetary system. If the monetary policy of the period between 1904 and 1907 may be called ' inflationistic ', on account of the incon-

siderate increases of the note circulation, the monetary policy of the following period, that is, from 1907 to the present time, may be called 'arbitristic', on account of the many measures that have been adopted in regard to the issue of notes, some of them absolutely absurd.

The aims of the government in its monetary policy, as well as in its administrative and other policies, have been as variable as the ministries that have followed one another in rapid succession, scarcely one of them lasting a full year. When a person with some knowledge of monetary matters has become Minister of Finance, he has invariably lacked time and means to institute the reforms necessary to overcome the two great difficulties with which the country has had to contend, namely, the instability of the rate of exchange, and the inelasticity of the currency. The efforts that have been put forth to establish a Conversion Fund—a system which has enjoyed a certain prestige in Chile, despite its disadvantages, on account of the stability with which the analogous institution of the Argentine Republic has maintained itself—have thus far led to no practical results.

CHAPTER XLVI

THE NEED OF AN INSTITUTION TO REGULATE BANK CREDITS AND NOTE ISSUES

We have already called attention to the periodical monetary crises caused by the scarcity of circulating media whereof the Chilian banking institutions have complained—crises which gave rise to, or at least served as a strong argument in favour of, the recurring increases of the note circulation in the period between 1904 and 1907. Whenever the banks complained of a scarcity of currency during those years, recourse was always had to an additional issue of treasury notes, which, far from satisfying the banking requirements in a stable manner, served only to pave the way to a new monetary crisis in the future.

When the dangers involved in this system were brought to

light, in 1907, the system of the ' emergency issues ', as they were called, to which we have likewise referred, was adopted.

All these functions of a monetary and banking nature, like the right conceded to the banks to issue interest-bearing notes guaranteed now by certain securities and now by deposits of gold either in Chile or in some foreign country—functions whereof we have spoken in preceding chapters—could have been performed under better conditions by some central credit institution having certain monetary and banking privileges, directed by competent persons and dedicated exclusively to that work. There is no doubt, for instance, that the loans made by the government to the nitrate producers, to which we have likewise already referred, would have been better handled by an institution of this kind.

The force of these necessities gave rise to the Conversion Fund project, which, as we have previously set forth, was something more than a purely monetary institution, as is that of the Argentine Republic ; for in addition to its monetary functions it had certain banking functions to perform, such as that of discounting foreign bills of exchange, making loans to the banks, providing the Government with funds, etc.

For some time, moreover, there has been developing in Chile a certain current of opinion in favour of the establishment of a central bank of issue, whose capital, like that of the Bank of England or the Bank of France, shall be shared by the public. Another opinion favours the establishment of a central bank whose capital and administration shall be in the hands of the State, that is, a National Bank.

Such an institution, provided it were properly organized, and, in particular, properly administered, would also perform an important service in the matter of stabilizing the rate of exchange.

CHAPTER XLVII

THE BANK-OF-ISSUE PROJECT OF 1918

The same Minister of Finance who negotiated the passage of the law of March 22, 1918, to which we have already referred, in that same year submitted to Congress a bill for the establishment of a Central Bank of Issue, which was to have the exclusive privilege of issuing and redeeming paper currency, and was to take charge, for this purpose, of the existing Conversion Fund. The proposed bank was to have a capital of 100,000,000 *pesos* of 18*d.*, but it was to commence operations as soon as it had collected 50,000,000. This capital was to be subscribed by the public and by the existing national banks, the latter purchasing the shares of an incorporated company to be constituted for that purpose. The administration of the bank was to be conducted by a president (*gerente*) or general supervisor, who was to be appointed by the government and assisted by a council of twelve members, six to be designated by the stockholders and six by the government.

As regards the matter of monetary reforms, the bill provided for the conversion of the paper *peso* at the exchange rate of 18*d.*, that is, at par. In imitation of what had been established in the English Bank Act of 1844 with reference to the Bank of England, the bank was to be divided into two distinct sections or departments, one charged with the issue of notes (Issue Section), and the other charged with the ordinary banking operations of receiving deposits, making loans, discounting bills of exchange, etc. (Commercial Section).

In order to judge this bill we will disregard the provision concerning the conversion of the paper *peso* at 18*d.*, which had a certain character of 'bluff'; for nobody familiar with matters of this kind thought that this would be carried out. We will also disregard the provision regarding the division of the bank into two sections—a provision which the Bank of England did not maintain in force, and which no large central bank afterwards adopted, because no good reason for it was

seen. In a word we will suppose that it was a question of a very well-elaborated plan for the establishment of a central bank of issue, and we will compare it with the project of the *Caja Central.*

From the very first there seemed no necessity of soliciting the subscription of a large capital from the public, since the state itself, with its Conversion Fund, has sufficient means wherewith to provide for the establishment of a central institution destined to solve the monetary problem.

It seems expedient to observe, moreover, that a central bank of issue is an institution which requires a very well-trained and wisely chosen personnel for its administration, since the functions it performs are rather delicate. The *Caja Central,* on the other hand, was an institution the operations of which were more limited and strictly regulated by law, and consequently its administration was also easier to organize. This is a consideration well worth being taken into account when there is question of a parliamentary government as unstable as that of Chile.

It has also been observed that a large bank in the administration of which the state has a certain intervention, is exposed to the dangers of political influence, which leads to the granting of special favours to certain persons. The *Caja Central* was not exposed to this danger, for it conducted no loan or discount operations for individuals but only for banks. In this connexion it is just to record that the *Caja de Crédito Hipotecario,* an institution created by the state, has not altogether escaped the demoralizing influences of politics; and at the same time, moreover, it is necessary to bear in mind that the functions of a large central bank are even more delicate than those of a mortgage bank.

Theoretically speaking, it may be said that a large central bank charged with the functions of maintaining a stable rate of exchange, giving a certain elasticity to the monetary system, regulating bank credit, and even rendering certain services to the state, is an institution destined to produce a great social-economic result. If it is not properly organized, however, if it is not directed with a certain sagacity and prudence, it may

degenerate to the point of producing disastrous results. I need only mention the unfortunate end of the official banks of the Argentine Republic in the economic crisis of 1891. One of these banks was the *Banco de la Provincia*, whereof the Argentine writer, Señor Don José A. Terry, says that ' it placed all its funds at the disposal of politics and personal ambitions ; and since then well known are the abuses which, added to the extravagances of the Government, etc.', were responsible for the failure of the principal bank of South America at that time.[1] The other official bank that failed in the Argentine Republic was the *Banco Nacional*, upon the administration of which politics likewise exerted a baneful influence. It is true that alongside these cases there are other cases of central banks which have produced good results.

To sum up, from the monetary standpoint it may be said that a central institution, whether a bank or a *Caja Central* such as that projected, will be of great importance with respect to the two principal aims of the monetary reforms : the stability of the rate of exchange, and the elasticity of the currency. The *Caja Central* would be simpler in its administration and less exposed to abuses than a national bank or bank of issue. The *Caja Central* was a state institution with limited functions so that it was easier to administer ; it was a very cautious experiment along the line of a state bank.

CHAPTER XLVIII

THE ECONOMIC AND MONETARY SITUATION OF CHILE AFTER THE WORLD WAR

In the latter part of the year 1918, as soon as the end of the war was anticipated, the price of gold began to go up rapidly. On November 1, before the complete collapse of the German armies on the western front, but after the Austrian withdrawal, the rate of exchange was quoted at 13*d.* on the Valparaiso stock exchange.

[1] Don José A. Terry, *La Crisis* (Buenos Aires, 1893).

In Chile the majority of the bills of exchange offered for sale in the foreign market proceed from the exportation of nitrate. In order to demonstrate the importance of the nitrate exports in relation to the country's entire foreign trade, we reproduce the following very significant figures (in *pesos* of 18*d.*):

Year	Value of total exports	Value of nitrate exports
1911 . .	339,408,404	267,789,983
1912 . .	383,227,949	297,713,364
1913 . .	396,310,443	310,488,955
1914 . .	299,675,435	217,024,811
1915 . .	327,479,158	225,385,703
1916 . .	505,962,916	358,613,780

As soon as the great conflict came to its sudden end, there developed in Chile a certain distrust regarding the future conditions of the nitrate market. The increased value and consumption of this commodity was due to its extensive use by the allied powers in the manufacture of explosives. With peace restored nobody knew what the market conditions would be.

This state of distrust regarding the nitrate market had a tendency to increase the premium on gold, that is, to lower the rate of exchange. This, however, was more a moral effect than a real one produced by a decreased offering of bills of exchange; for there were contracts pending with the allied governments for the delivery of nitrate up to the end of the year 1918. On the other hand, there was no special demand for bills of exchange drawn on foreign countries, apart from that occasioned by speculators who foresaw further falls of exchange. The foreign debts of the country had been paid, in large measure, during the war. The status of the exchange market was, in a word, favourable to the country.

The rate of exchange continued to go down, and at the beginning of December 1918, it was quoted at 11·5*d.* At the end of the year it was already supposed that further shipments of nitrate were impossible, for the purchases of the allied governments had ceased entirely; of the purchases previously made for the manufacture of explosives, there still remained

a considerable balance to be sold for agricultural purposes by the allied governments themselves. This caused the rate of exchange to fall still further, so that on January 1, 1919, it was quoted at around 10·5*d*. It is to be noted that this fall of exchange was caused more by the moral effect of the suspended exportation of nitrate, for during the war, as we have already observed, the country paid off a large part of its foreign debt and the exchange market remained favourable.

At the beginning of the year 1919 it was known positively that there was no hope of a prompt recovery of the exports of nitrate. According to information received, however, and owing to the value of this commodity as a fertilizer, it was believed that its exportation would sooner or later be resumed on a considerable scale.

For many years in Chile the dangers to which the nitrate industry is exposed by reason of the ever-increasing production of artificial fertilizers in other countries, especially Germany, have been considered. It is not within our sphere to estimate the degree of danger involved for Chilean nitrate, owing to the competition that may develop between it and nitrate manufactured in the United States or in Europe ; but referring to the opinion current in business centres we must confirm the confidence that seems to exist as to the superior quality of Chilean nitrate as a fertilizer—a superiority believed to ensure its extensive consumption for agricultural purposes. Meanwhile, however, during the first half of the year 1919 the suspension of its exportation continued, and the economic activity of the country suffered severely in consequence. In 1919 (see previous page) a large part of the public revenues proceeded from the export duty levied on nitrate, so that the suspension of its exportation, even for half a year, would have caused a considerable deficit in the national budget.

We reproduce at this point a table showing the annual public revenues of Chile in the years 1912–17, as well as the proportion thereof corresponding to the export duties on nitrate and iodine, the latter being a by-product which is likewise subject to a duty.

ANNUAL PUBLIC REVENUES OF CHILE, 1912–17

Year	Total revenues		Portion of total revenues corresponding to export duty on nitrate	
	Paper *pesos*	Gold *pesos* of 18*d.*	Paper *pesos*	Gold *pesos* of 18*d.*
1912 . .	141,276,333	112,310,315	..	85,391,194
1913 . .	159,425,303	97,165,452	..	90,683,574
1914 . .	149,641,571	60,436,431	33,391,194	49,911,715
1915 . .	195,960,618	33,556,478	86,257,972	29,123,028
1916 . .	226,793,844	64,275,398	79,296,157	60,975,839
1917 . .	220,385,281	..	77,049,431	..

Moreover, the suspension of the exportation of nitrate has a grave counter-influence upon the general economic life of the country. We have already seen the effect it has upon the rate of exchange. The nitrate industry is a splendid market for the consumption of the products of agriculture and the national industry. Of the net profits accruing to the nitrate producers a considerable portion remains in the country, since the industry is largely in the hands of native Chileans or naturalized foreigners. It will be readily understood, accordingly, that this industry is of great importance for the country, and that its paralysation, even for a short length of time, would necessarily have an extremely prejudicial effect upon general commercial and industrial conditions. The national economy of Chile is very closely bound up with the mining industry, and for that reason it is very much at the mercy of changes in this kind of capital.

The prices of the other Chilean products of exportation also went down when the war came to an end, the most important of these products being copper and gold. In consequence of the fall of exchange, however, the cost of production also went down, so that it may be said that the high premium on gold was compensated, partially at least, by the low prices prevailing in foreign markets.[1]

[1] The decline of exchange, that is, the depreciation of the paper currency, benefits the producers to a considerable extent at the expense of their labourers, since the former receive payment in gold and in turn pay the latter in paper. On the other hand, the injury to the labourer cannot be looked upon as proportionate

With the fall of exchange that marked the end of the war there disappeared the illusions of those who imagined that the high rate was stable and that the conversion of the paper *peso* could be effected at par. When these illusions have entirely disappeared, it is to be hoped that the partisans of a stable rate of exchange will unite for the purpose of reforming the monetary system through the adoption of a new gold standard, which is based upon the average quotations of the past few years and for that reason is not calculated to cause disruptions in the economic life of the country. A paper *peso* which has maintained an exchange value of approximately 10*d.* for ten years or more cannot be converted into a gold *peso* of almost double value, as the par value would be, without seriously deranging economic and financial conditions. If such derangements were not felt when the rate of exchange rose to that height during the war, this is to be attributed to the very extraordinary conditions prevailing at that time—conditions, moreover, which are not likely to prevail in the normal economic relations of the nations of the world. In order that a doubling of the gold value of the paper *peso* may not bring about the ruin of the debtors and a general disruption of business, it is necessary that the rise of exchange shall not cause a decline of the values which most affect the national economy. If the price of nitrate and other products of exportation goes up at the same rate as the rate of exchange, in such a way as not to produce a difficult situation for the promoters, it is clear that the latter will not feel the effects of the increased value of the currency. Furthermore, if manufacturers find themselves free from foreign competition, it is clear that they will have no reason for lowering the prices of their products. But it is improbable that there will ever again arise, at any rate in an abiding or stable manner, such conditions as were brought about by the World War. For that reason it is to be expected

to the decline of exchange, because the prices of the commodities of the national industries do not rigorously follow the fluctuations of exchange. Thus when the rate of exchange goes down 10 per cent., for example, it cannot be said that wages have likewise gone down 10 per cent., because many of the commodities consumed by the labourers are sold at the same price.

that, if the rate of exchange does rise again to par, it will be followed by grave disruptions in the economic life of the country.

The reformation of the Chilean monetary system is absolutely necessary. There cannot be maintained, as a standard of value, a monetary unit whose value is subject to such extreme fluctuations as is the *peso*. We need a stable rate of exchange on the gold standard basis, whether the circulation of gold is adopted, or whether, with better wisdom, the circulation of paper at a fixed rate of exchange is maintained.

These are rudimentary truths of monetary science, but they have not been able to put themselves into practice in Chile on account of the special conditions of our political life. To say that the government has a gold Conversion Fund large enough to convert the paper money in circulation at an exchange rate exceeding 13*d.* per *peso*, and that the rate of exchange has nevertheless been allowed to fall as low as 8*d.* or 9*d.*, and that its instability has been supported for so many years, is a phenomenon which must seem very extraordinary to one judging it from the outside.

CHAPTER XLIX

THE STATUS OF THE CONVERSION FUND

As we saw in chapter XLI, there exists a gold fund which has been accumulating for a number of years and which is set apart by law exclusively for the conversion of our paper currency, for which reason it has been called the 'Conversion Fund' (*Caja de Conversión*). On December 31, 1913, as we have seen, this fund amounted to £7,901,236 sterling or 105,494,222 *pesos* of 18*d.*, that is, gold *pesos* containing 0·599103 grm. of metal $\frac{11}{12}$ fine.

Most of this money was deposited in German banks; and since the war had seriously compromised the credit of Germany, many persons entertained well-founded apprehensions regarding its safety. The *régime* of paper currency existed in Germany,

and although in the contracts made by the Government of Chile it was very clearly stipulated that the deposits were in gold and not in German *marks*, owing to the uncertain conditions that prevailed in that country, their safety, as already stated, gave rise to serious lack of confidence.

The Government of Chile then carried out an operation which resulted very favourably. Several German nitrate producers, who had been established in Chile for a long time, had on hand a large stock of nitrate which they were unable to export on account of black lists. The Government of Chile thereupon came to an understanding with the governments of the allied countries which had need of nitrate for the manufacture of explosives, and by agreement with them, as also with the Germans, it sold the entire stock in the hands of the German producers to the allied governments and credited the proceeds to the Conversion Fund maintained in the English banks in London; and at the same time the credits of the Government of Chile in Germany were ceded to the German producers who owned the nitrate sold. In this way, accordingly, there was transferred from Germany to England the part of the Conversion Fund deposited in the *Deutsche Bank*, the *Dresdner Bank*, and the *Diskonto-Gesellschaft*.

By a law of December 29, 1916, the Government of Chile was authorized to use a part of these funds to pay a loan which the English house of Morgan, Grenfell & Co. was negotiating at a time when it was not easy to obtain credit. The amount set apart for this purpose was around £800,000 sterling.[1]

According to the last Memorandum of the Minister of Finance, the status of the Conversion Fund on May 18, 1918, was as follows (in Chilean gold *pesos* of 18*d.*):

	Pesos
Deposited in London	69,530,948·24
Deposited in Chile in the mint in bullion . .	40,029,998·35
Total	109,560,946·59

In the memorandum referred to the Minister of Finance

[1] A sum of £2,000,000 sterling was withdrawn from the Conversion Fund to meet this obligation, but afterwards only £1,200,000 were subscribed.

further stated that ' the Ministry proposes gradually to transfer a part of these funds (those in England) to the United States '.

If a part of this fund had been transferred to the United States, it would have been possible to set it aside for the establishment of the international gold fund proposed by the Central Executive Council of the Inter-American High Commission of Washington. According to the project proposed, the purpose of the international gold fund was to facilitate the making of international payments and render unnecessary, in so far as possible, the shipment of gold from one country to another; and another purpose was to give stability to international exchange. Since these are precisely the objects of our Conversion Fund deposits, a part of them might well be set apart for the constitution of this Inter-American Fund proposed by the Inter-American High Commission of Washington.

CHAPTER L

SUMMARY OF FACTS REGARDING THE MONETARY SYSTEM OF CHILE IN 1919

In 1919, accordingly, the monetary system of Chile is based on paper currency or inconvertible notes of full legal tender. The only notes in circulation are those issued by the government, since the banks do not enjoy the right of issue and there is no specific bank of issue.

The treasury notes are of two kinds: those corresponding to the fixed issue, and those corresponding to the variable issue. The amount of the fixed issue is 150,000,000 *pesos*. The notes of the variable issue are of two kinds, namely:

(1) Those issued by the *Caja de Emisión* (Central Office of Issue) created by the laws of May 11, 1912 (chapter xxxix) and May 22, 1918 (chapter xlv). According to the provisions of these laws, persons who deposit gold have the right to receive notes at the rate of 18*d*. per *peso*. The national banks may make these deposits in certain foreign countries, as in England and the United States; and, in conformity with the

law of 1912, if the rate of exchange is below 12*d.*, as it is at the present time, they may issue the notes against deposits of gold at the rate of 12*d.* per *peso*. The depositors, on returning their notes for redemption, have a right to recover the gold deposited by them. On August 31, 1919, the amount of these notes in circulation was 53,250,058 *pesos*.

(2) Treasury certificates destined to be loaned to the nitrate producers in conformity with the law of September 12, 1914, to which we referred in chapter XLIV. The amount of these treasury notes in circulation on August 31, 1919, was 35,613,000 *pesos*. Owing to the paralysation of the export trade, the nitrate producers made extraordinary use of this credit facility offered by the government, these treasury notes being in reality treasury notes of full legal tender. As regards the authority given to the banks to receive these treasury notes against security in the form of mortgage bonds, and subject to the payment of interest, it is no longer in force.

To sum up, accordingly, we reproduce at this point a table showing the amount of paper currency in circulation in 1918.

	Pesos
Fixed issue	150,000,000
Variable issue	
(*a*) Notes issued by the *Caja de Emisión* guaranteed by gold	53,250,058
(*b*) Treasury certificates loaned under guarantee of nitrate	35,613,000
Total	238,863,058

The existing Conversion Fund (*Caja de Emisión*—chapter XLVI) serves to guarantee the conversion of the notes corresponding to the fixed issue, while those corresponding to the variable issue are guaranteed by gold and nitrate.

Besides these inconvertible notes of full legal tender there exist the gold coins based on the *peso* containing 0·599103 grm. of gold $\frac{11}{12}$ fine. This metallic currency does not circulate in daily transactions, but merely serves as a standard of value for a certain class of operations. The government makes this gold currency receivable for certain taxes, and most business houses are in the habit of selling their merchandise in it. Since there are very few people who have any of this gold currency, debts

contracted in it are ordinarily paid in paper currency, the premium on gold being taken into account at the time of payment. The premium on gold currency is fixed every day in the stock exchange at Valparaiso.

CHAPTER LI

REASONS FOR THE DELAY IN THE REFORMATION OF THE CHILEAN MONETARY SYSTEM

From 1898 to 1910, roughly speaking, the principal factor responsible for the maintenance of the paper *régime* was the but little gratifying memory of the short gold *régime* from 1895 to 1898. It was recalled that those years had been marked by a grave economic crisis, which was aggravated by the very effects of the monetary reforms. For many persons, accordingly, gold *régime* was almost synonymous with restriction of credit, high interest rates, low prices, etc. This loss of prestige on the part of the gold *régime* was also utilized by the partizans of paper currency.

A great influence upon the delay in the reformation of the monetary system was also exerted by the notion, upheld by many well-known statesmen, that the country was not in a position to maintain itself on a gold basis. According to these theoretical partizans of paper currency, the downfall of gold would be inevitable; and the country would necessarily have to return to a paper basis on account of the exportation of its gold. This pessimistic notion, which is devoid of any logical foundation, has been losing its old prestige in the public mind.

In 1907 a reaction of opinion began to assert itself against paper currency. The serious disadvantage of maintaining a currency subject to such violent fluctuations of exchange was coming to be felt, and since then adverse public opinion has been growing stronger every day. At the present time, accordingly, there is almost no one who does not want reform—the labour unions, political associations, and press are all in accord

regarding the matter. In spite of all this, however, it has not yet been possible to accomplish anything along this line.

The cause of this impotence on the part of the state is in large measure to be attributed to our parliamentary form of government, one of the consequences of which has been lack of ministerial stability, changes in the cabinet following one another in such rapid succession that it is very difficult for a new minister to put through any important reforms.

Moreover, the excessive freedom of speech enjoyed by our members of parliament has permitted obstruction in such a way that a minority has almost always been able to impose its will upon the majority and prevent the passage of a law to which it is opposed. At the present time, and for a year past, the regulation of our Chamber of Deputies has been modified in such a way as to permit the closure of debates when voted for by 68 per cent. of the members present. In the Senate, however, there is no such regulation.

The question is: How much longer will this state of affairs continue to exist? It is difficult to answer this question positively. Given a public opinion in favour of reforms, however, it is obvious that it will be no easy matter for a minority to obstruct their adoption. It merely devolves upon the government to make some practical and convenient recommendations, and to abandon the absurd idea, supported by some, of re-establishing the old gold basis. It is necessary to decide upon a new rate of exchange based upon the average rate of the last few years, that is, a rate which will not produce any serious disturbance in the economic and financial life of the country. If this is done, the change in our monetary *régime* cannot produce anything but good results.

CHAPTER LII

THE EFFECT OF THE WORLD WAR UPON THE FOREIGN BANKS

Generally speaking, the effect of the World War upon the banking business in Chile was favourable rather than unfavourable, as is shown by the figures reproduced in chapter xliv. When the acute crisis that marked the beginning of the war subsided, that is, when normal conditions were restored and a period of prosperity was ushered in, a group of associated French and Chilean capitalists organized the *Banco Francés de Chile* as an incorporated Chilean company.

The only bank that had to close its doors was the *Banco Italiano*, an incorporated Chilean company which had been badly managed; thus it collapsed as a decayed tree collapses under a strong wind.

The only banks that were at all seriously embarrassed were the German banks, which, during the acute stage of the crisis, that is, during the period immediately following the commencement of hostilities, were called upon to meet large withdrawals of deposits. Finding themselves isolated from Germany and unable to draw on their bankers, as they had been in the habit of doing, they were undoubtedly very hard pressed; but thanks to the assistance given them by some of the large national banks, as also to the good state of their affairs, they were able to stand the strain of the run.

At the beginning of the war the situation of the German banks was also complicated by the fact that many bills of exchange which they had drawn on their bankers in Europe were not paid there, so that they themselves had to pay them in Chile. After the storm had abated somewhat, however, they continued to conduct their operations through many difficulties created by the black lists and boycotts established by the Allies and pro-Allies.

We reproduce at this point two tables showing the deposits

of the German banks, the English banks, and all the banks combined before and after the war.

STATUS OF THE DEPOSITS IN MAY 1914

Banks	Paper *pesos*	Gold *pesos* of 18*d.*	Total deposits reduced to paper *pesos* of 12*d.*
German banks.	52,578,859	11,166,429	69,328,502
English banks.	40,663,827	21,867,029	73,464,370
All banks .	339,031,661	61,975,928	491,995,553

STATUS OF THE DEPOSITS IN JUNE 1918

Banks	Paper *pesos*	Gold *pesos* of 18*d.*	Total deposits reduced to paper *pesos* of 12*d.*
German banks.	42,279,267	19,542,461	71,592,958
English banks.	42,514,214	83,516,082	167,788,337
All banks .	543,246,108	181,134,276	814,947,522

Thus it seems that the German banks maintained their deposits at approximately the pre-war level. The English banks, on the other hand, more than doubled their deposits, exceeding the average increase in the deposits of all the banks, which, as will be seen, amounted to about 60 per cent.

CHAPTER LIII

THE ESTABLISHMENT OF THE OFICINA DE INSPECCIÓN BANCARIA

THE law of 1860 governing banks of issue and deposit, the provisions of which, excepting those relating to the issue of notes, are for the most part still in force, provided that the government was to verify, by means of the appointment of one or more agents, the books, funds, and portfolios of the banks. In practice, however, this provision has fallen into disuse.

On January 24, 1912, there was passed a law which fixed the tax which the banks of deposit were to pay at two-thousandths per annum of their average deposits on hand. Until that time

the tax was paid on the value of their stock shares according to the exchange quotations; but since the foreign banks did not have any stock quotable in the Chilean exchanges, the result was that they were exempt from all taxation. The law of 1912 was passed in order to fill this gap.

This new law, moreover, created the *Oficina de Inspección Bancaria* (Office of Bank Inspection), the articles relating thereto being worded as follows:

ART. 2. The President of the Republic shall appoint a Bank Inspector who shall examine the books and vouchers of each bank and every six months submit to the government a report concerning the correctness of the book-keeping and balance-sheets which each bank has to turn over to the Minister of Finance in conformity with the law of July 23, 1860.

ART. 3. If it is shown that any bank has falsified its balance-sheet, especially as regards the amount of its deposits, that bank shall pay for the first offence a fine equivalent to three times the amount of its tax corresponding to the last half-year; if a second offence is shown, the bank shall be deprived of its right to continue the exercise of its functions.

Since the passage of this law there has remained established in the Ministry of Finance an Office of Bank Inspection charged especially with the fiscalization of bank balances. This is the office which directs the statistics of the bank of deposit operations. Herein, moreover, consists the most effective intervention of the state in the operations of these banks.

CHAPTER LIV

THE MORE COMMON OPERATIONS OF THE BANKS

(A) *Deposits.* The receipt of deposits constitutes the true basis of the banking business.

The following table shows the varying rates of interest which the Chilean banks have established on deposits :

Date	At sight (per cent.)	3 months (per cent.)	6 months (per cent.)
September 30, 1865	6	7	8
August 31, 1866	5	7	8
May 15, 1867	5	6	7
July 8, 1867	4	6	7
October 18, 1867	4	5	6
November 28, 1868	3	4	5
August 1, 1870	4	5	6
December 16, 1872	5	6	7
December 18, 1872	5½	6	7
December 31, 1872	4	5	6
March 18, 1873.	5½	6	7
July 4, 1876	6	7	8
July 1, 1879	4	5	8
July 15, 1879	3	5	7
December 1, 1879	2	4	5
September 1, 1880	1	3	4
January 1, 1883	2	3	4
1883	2	3	4½
1892	2	3	4½

The following table shows the rates of interest that prevailed for deposits in the *Banco de Chile* from 1894 to 1905 :

Date	At sight (per cent.)	3 months (per cent.)	6 months (per cent.)	One year (per cent.)
January 1, 1894	2	3	4½	5
July 1, 1895	2	5	7	8
March 1, 1897.	2	4	6	7
May 1, 1898	2	4	7	..
September 1, 1898	2	4	6	..
November 1, 1899	1	4	6	..
September 1, 1905	1	3	5	..

Since April 23, 1906, the following interest rates on deposits have prevailed :

At sight and subject to call	1 per cent. per annum
On 30 days' notice	3 ,, ,,
Fixed term of two or three months . .	4 ,, ,,
Fixed term of four months or less, with 30 days' notice after two months . . .	5 ,, ,,
Fixed term of six months, with 30 days' notice after four months	6 ,, ,,

There are also deposits ' in trust ', which ordinarily consist of bonds, stocks, or other securities which the bank guards in its vaults. The banks also take charge of the cutting of the coupons on the bonds which are deposited in their custody, and ordinarily they do not charge any commission for this service. The value of the deposits ' in trust ' in January 1918, was 541,532,000 paper *pesos* and 53,254,000 gold *pesos* of 18*d.*

(B) *Time Loans : three and six months.* The form most commonly used by the Chilean banks for the placement of money is the three-months loan, and, as a maximum, the six-months loan. Ordinarily these loans are secured by stocks and bonds ; but they are also sometimes secured by property mortgages, despite the fact that this is not ordinarily looked upon as very commendable security for this class of operations. To the customers of a bank, when they are of recognized solvency, these loans are sometimes made solely with the responsibility of their signatures, that is, on their personal credit ; but this is not usually the case.

After the expiration of the term of three or six months, these loans are generally renewed for another term of three or six months, upon payment of the interest of a commission of renewal, and of a certain amortization. The clientele of the Chilean banks, composed to a considerable extent of farmers, who frequently do not have at their disposal sufficient capital for the exploitation of business, are rarely able to pay short-term loans punctually.

The following table shows the rates of interest charged by the banks on loans :

	Per cent.		Per cent.
January 1870	8	October 1879	9 and 10
September 1870	9 and 10	November 1879	9
December 1870	9	January 1880	8 and 9
January 1872	8 and 9	February 1880	8 and 9
May 1872	8½ and 9	May 1880	8
July 1872	8 and 9	September 1880	7 and 8
January 1873	8	December 1880	7
February 1873	8 and 9	October 1883	8 and 9
April 1873	10	March 1884	7
January 1875	10 and 12	May 1885	7 and 8
March 1875	10	August 1885	8
June 1875	10 and 11	November 1885	7½ and 8
July 1875	10	December 1885	7½
June 1876	10 and 11	January 1886	8
July 1876	12	February 1891	7
September 1876	11	March 1892	8
August 1878	12	December 1892	9
May 1879	11	February 1893	10
July 1879	10	April 1893	9

The following are the annual rates of interest corresponding to this class of loans fixed by the *Banco de Chile* since 1894 :

	Per cent.
January 1, 1894	9
July 1, 1895	10
March 1, 1897	8
May 1, 1898	10
September 1, 1898	8
January 1, 1899	7
August 1, 1901	8
October 1, 1905	7
May 1, 1906	8
March 1, 1907	9
June 1, 1912	9
October 1, 1918	8

(C) *Call Loans.* These constitute another rather common form of bank loans. In order to prevent debtors from moving their accounts too much, that is, from drawing out their money without replacing it, the directors of the banks endeavour to keep the accounts moving, for in this way they themselves are enabled to serve the public under better conditions.

The following table shows the rates of interest on call loans, attention being drawn to the fact that besides this interest a commission of ½ per cent. is ordinarily charged on the amount of the credit at the end of each half-year :

	Per cent.		Per cent.
October 1, 1868	8	July 15, 1879	9
November 28, 1868	7	January 1, 1880	8
December 31, 1869	8	September 1, 1880	7
October 15, 1870	9	January 1, 1881	6
September 1, 1871	8	January 1, 1888	6
March 18, 1873	9	January 1, 1889	6
October 1, 1874	10	January 1, 1890	6
July 4, 1876	12	January 1, 1891	6
September 1, 1876	11	January 1, 1892	6
January 15, 1877	10	February 1, 1893	7

The following table shows the annual rate of interest on call loans fixed by the *Banco de Chile* from 1894 to 1912 :

	Per cent.
January 1, 1894	7
July 1, 1895	9
March 1, 1897	8
May 1, 1898	9
September 1, 1898	8
January 1, 1899	7
January 1, 1900	7
September 1, 1901	8
April 1, 1912	9

(D) *Drafts.* In the last few years the discounting of drafts and commercial paper has become very general.

According to the Chilean code, already rather old, drafts were always to be drawn from one place on another. In other countries they may be drawn and paid in the same city ; and here in Chile, despite the provision of the law, drafts are in fact drawn among persons residing in the same city. The object of these drafts is to facilitate commerce by giving the purchaser of a product a period of one, two, or three months in which to make payment. The discounting of this class of drafts, which is one of the most appropriate operations for a bank, has been undergoing considerable development in Chile.

The following table shows the annual rate of discount fixed by the *Banco de Chile* on drafts payable in three months or less :

	Per cent.
November 16, 1916	7½
November 16, 1917	7
June 28, 1918	6½

(E) *Bills of Exchange.* The Chilean banks also negotiate in the discounting of bills of exchange on foreign countries, selling their bills to persons soliciting them.

Owing to the constant fluctuations in the rate of exchange in a paper-currency *régime* such as that of Chile, this operation involves certain difficulties. As a matter of fact, a bank which does not wish to speculate, or which desires to play safe and avoid the losses occasioned by exchange fluctuations, always seeks to cover the bills which it draws on foreign countries by purchasing bills of exchange for an amount equal to that which it sells. Our banks sell their bills on foreign countries at $\frac{1}{8}$ or $\frac{1}{16}$ of a penny dearer than the rate of exchange quoted on the Valparaiso stock exchange. In this manner if they sell bills of exchange for $10,000 on New York, for example, at the exchange rate of $9\frac{7}{8}d.$, it is because they have purchased bills for an equal amount at the exchange rate of 10*d.* In practice it is not always easy for the banks to realize these operations without exposing themselves to the possibility of losing money.

This accounts for the different quotations that sometimes exist between what is called the ' banking exchange ' and the ' commercial exchange '.

The banks also take charge of the collection, for the account of their customers, of bills of exchange drawn against persons residing abroad ; and also, inversely, of the collection of bills of exchange drawn abroad against persons residing in Chile. They do all this in return for the payment of a commission.

The banks also attend to the discounting of bills of exchange from one city to another in Chile. They send these drafts after four days and ordinarily collect no commission for them, especially when it is a question of cities between which there is a large movement of drafts, as between Santiago and Valparaiso.

(F) *Other Operations.* Certain banks, such as the *Banco de Chile* and the majority of the foreign banks, take charge of consignment operations in order to sell abroad national products of easy sale, such as nitrate, wheat, copper, etc. In these operations they make advances of money to the consigners of products and collect a commission.

Likewise the banks take charge of the purchase and sale of stocks and bonds for the account of their customers.

The loan operations guaranteed by merchandise, by means of warrants, have not yet been introduced into Chilean banking practices. There is at present a bill before Congress, patronized by the National Agricultural Society (*Sociedad Nacional de Agricultura*), which regulates this class of operations with the object of promoting them.

Some large foreign banks, such as the National City Bank of New York recently established in Chile, have sought to devote special attention to commercial operations. If a merchant or manufacturer residing in Chile wishes to purchase abroad a certain class of merchandise, and does not have the necessary credit to place the order on his own account, he may go to the bank and let it serve as intermediary in the operation. The bank, after taking all the securities for the transaction, takes charge of filling the order in the United States; and it immediately transports the goods ordered to Chile, consigned to the bank, which delivers them to the customer, subject to the payment of expenses and the commission agreed upon.

But the principal business of the banks of Chile does not consist of these operations, as a rule, but of receiving deposits and making loans, that is, of converting themselves into credit agencies.

As regards the issue of notes, it would seem that the Chilean banks will never have this right again.

(G) *Operations to avoid the losses occasioned by the fluctuations of exchange.* It is difficult for banks which have a capital in gold currency, as have foreign banks, to operate with their own capital in a country like Chile, with paper currency subject to fluctuations of exchange, without exposing themselves to the effects of these fluctuations, which generally result in losses.

We have already considered the operations of the issue of treasury notes authorized by means of deposits of gold at the order of the *Caja de Emisión.* This is one way which certain

foreign banks have had of safeguarding themselves against fluctuations of exchange.

When a bank which does not resort to the *Caja de Emisión* wishes to take a loan of money abroad to effect operations in national paper money, it is obliged to ' cover itself ' against the dangers of loss due to the fall of exchange by purchasing bills of exchange on time, subject to future delivery. For example, if a bank has credit abroad and wishes to provide itself with 1,000,000 *pesos* of national currency, the rate of exchange being 12*d.*, it sells bills of exchange at ninety days' sight for £50,000 and at the same time purchases at the same rate, or at a better rate, an equal quantity of pounds sterling for future delivery, let us say, for example, for within three months. If at the expiration of these three months it cannot pay the amount it owes in London and wishes to maintain this credit another three months, if the rate of exchange is 10*d.*, it pays the £50,000 which it had bought at 12*d.*, remits that sum to London in satisfaction of its credit ; and at the same time it again negotiates bills, let us say for £42,000, and sells them on the exchange for 1,000,000 *pesos* ; also at the same time, repeating the same operation, it purchases an equal quantity of pounds sterling at the same rate, or at a better rate, at three months' delivery.

When a bank has available funds in paper money it also sometimes buys what are called *postergaciones* [futures], an operation which consists in purchasing bills of exchange for cash and selling them at the same time for future delivery with the object of making a profit, which at times is considerable, on account of the rate of exchange being lower for the future delivery than for the quotations for cash.

On account of these and other analogous operations certain banks are large buyers and sellers of bills of exchange on foreign countries for cash and on time. The purchases and sales on time are ordinarily used by the banks as a means of covering themselves against dangers of loss by reason of exchange fluctuations.

According to the report of the Inspector of Banks ordered by

the government in 1918, the national and foreign banks purchased bills of exchange on time for the amount of £59,833,356 and also sold on time bills of exchange for the amount of £51,242,825. The majority of these operations would have no *raison d'être* if the monetary system were reformed with reference to the stabilization of the rate of exchange.

CHAPTER LV

THE FLUCTUATIONS OF EXCHANGE

In the Valparaiso stock market are effected the purchases and sales of bills of exchange which determine the Chilean rate of exchange. These operations are conducted in bills of exchange drawn on London, ordinarily at ninety days' sight, and this accounts for the fact that the Chilean rates of exchange are quoted in English money.

English money has always had a special importance in the Chilean foreign exchange market, and this has caused it to exert a certain influence upon the country's monetary system. We have seen that the monetary law of 1895 adopted the English fineness of $\frac{11}{12}$ for Chilean gold pieces, and that the pound sterling was made legal tender in Chile—a rather surprising provision on which we commented in chapter XXXII.

Since the operations of the Valparaiso stock exchange are conducted only in bills of exchange drawn on London, anybody who wishes to buy or sell bills of exchange drawn on some other foreign city, such as New York or Paris, must ordinarily have recourse to the banks, which derive a margin of profit for themselves in the handling of this business. Up to the present time the London market has been the centre of Chilean foreign exchange operations.

The question now arises, Will the London market, the traditional centre of these operations, remain predominant in the future? The importance of the New York market has steadily increased, and at the present time the number of bills of exchange drawn on New York is considerable. According

to a special report prepared by the Inspector of Banks at the order of the Government of Chile, the number of bills of exchange bought and sold by the Chilean banks in the year 1918 was as follows :

	Purchases	Sales
Bills in pounds sterling . . .	68,177,252	65,857,181
,, dollars	77,376,936	84,227,959
,, francs	35,832,569	43,808,056
,, pesetas	9,979,236	24,837,199
,, lire	7,672,246	9,631,106
,, marks	16,826,042	13,193,342
,, nacionales (Argentina) .	17,035,797	19,133,988

We see, accordingly, the importance that is to be attributed to the negotiation of bills of exchange drawn on New York.

At this point we reproduce a table showing the rates of exchange in English pence for ninety-day bills of exchange drawn on London from 1830 to 1878, that is, during the old bimetallic *régime*.

RATES OF EXCHANGE, 1830–1878

Year	Pence	Year	Pence	Year	Pence	Year	Pence
1830	44	1842	$45\frac{3}{4}$	1854	45	1866	$46\frac{9}{16}$
1831	$44\frac{1}{2}$	1843	$45\frac{1}{2}$	1855	$45\frac{3}{4}$	1867	$46\frac{13}{16}$
1832	45	1844	$44\frac{11}{16}$	1856	$45\frac{5}{8}$	1868	$46\frac{1}{16}$
1833	$44\frac{5}{8}$	1845	$44\frac{1}{2}$	1857	$45\frac{3}{4}$	1869	$46\frac{1}{16}$
1834	$45\frac{3}{4}$	1846	$44\frac{7}{16}$	1858	$45\frac{5}{16}$	1870	$45\frac{5}{8}$
1835	$44\frac{3}{4}$	1847	44	1859	$45\frac{5}{8}$	1871	$45\frac{5}{16}$
1836	$44\frac{3}{4}$	1848	$43\frac{3}{8}$	1860	$43\frac{3}{4}$	1872	$46\frac{3}{8}$
1837	$44\frac{11}{16}$	1849	$44\frac{15}{16}$	1861	$44\frac{11}{16}$	1873	$44\frac{13}{16}$
1838	45	1850	$46\frac{3}{16}$	1862	$45\frac{7}{16}$	1874	$44\frac{5}{8}$
1839	$45\frac{1}{2}$	1851	$45\frac{13}{16}$	1863	$43\frac{1}{8}$	1875	$43\frac{13}{16}$
1840	$45\frac{1}{4}$	1852	46	1864	$44\frac{5}{16}$	1876	$40\frac{9}{16}$
1841	$45\frac{1}{2}$	1853	$47\frac{1}{4}$	1865	$45\frac{13}{16}$	1877	$42\frac{1}{16}$

From July 1878 to June 1895 legal-tender notes were in circulation ; from that time to August 1898 gold was in circulation ; and from 1898 to the present time the country has been on an inconvertible paper basis.

RATES OF EXCHANGE, 1878–1917

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Annual Average
1878	41·7	41·5	41·2	41·0	40·2	40·2	40·1	38·1	37·1	37·2	37·9	39·2	39·6
1879	38·7	38·2	38·5	34·7	32·8	31·6	31·0	27·0	25·5	27·7	34·5	36·5	33·0
1880	36·4	36·1	34·1	32·0	32·3	31·6	29·5	25·7	25·8	29·0	28·6	29·5	30·9
1881	29·5	30·0	29·7	27·6	27·5	28·7	29·9	32·1	35·1	33·4	34·1	35·4	30·9
1882	35·8	25·0	35·2	35·1	34·4	34·7	35·2	35·1	35·4	35·9	36·4	36·2	35·4
1883	36·5	25·7	35·4	35·1	34·3	34·1	34·9	35·4	35·4	35·6	35·6	34·9	35·2
1884	33·4	34·0	33·2	32·0	30·4	31·9	31·6	31·5	31·3	31·5	30·5	29·7	31·7
1885	28·1	26·5	25·2	25·7	26·7	25·9	25·6	24·5	23·2	23·4	25·1	25·2	25·4
1886	27·2	25·7	25·1	24·6	23·2	22·2	22·7	22·7	21·9	22·7	24·9	23·9	23·9
1887	24·3	23·2	23·2	23·6	25·0	25·0	25·0	25·0	25·0	24·7	24·9	24·9	24·5
1888	26·0	25·8	25·8	25·0	26·0	25·7	25·1	26·0	26·3	26·6	27·1	28·5	26·2
1889	25·5	29·3	29·4	28·2	26·4	26·0	25·5	24·6	25·2	25·4	25·3	25·2	26·6
1890	25·2	25·0	24·9	24·6	24·3	24·0	23·7	22·9	23·6	23·9	23·7	22·9	24·1
1891	22·2	20·3	17·5	16·7	15·7	15·9	..	16·4	..	19·5	21·5	22·1	18·8
1892	21·5	20·4	20·4	19·2	17·9	17·9	17·6	17·1	17·9	17·2	19·2	19·1	18·8
1893	17·4	16·6	16·0	15·2	14·0	14·9	14·4	15·3	15·1	14·6	13·8	12·7	15·0
1894	13·4	12·8	13·0	12·5	11·2	11·6	11·9	11·8	11·7	12·7	14·0	13·9	12·6
1895	14·2	15·9	16·7	16·6	16·9	17·7	17·1	17·2	17·3	17·3	17·4	17·4	16·8
1896	17·4	17·6	17·6	17·2	17·4	17·4	17·4	17·4	17·4	17·4	17·4	17·5	17·4
1897	17·6	17·6	17·6	17·6	17·6	17·5	17·6	17·6	17·6	17·6	17·6	17·6	17·6
1898	17·6	17·6	17·6	17·3	17·5	17·2	..	..	13·1	13·2	13·0	12·7	15·7
1899	11·9	12·9	13·5	14·0	14·6	14·6	15·2	15·5	15·3	15·0	15·1	16·0	16·8
1900	16·2	16·2	16·3	16·3	16·5	17·0	17·1	17·1	17·2	17·2	17·1	17·1	16·8
1901	17·1	16·6	16·8	16·3	15·8	15·6	15·3	16·3	16·0	15·6	15·3	14·4	15·9
1902	14·1	13·9	13·6	13·6	14·6	15·3	15·6	16·1	16·1	16·1	16·1	16·6	15·2
1903	16·4	16·4	16·6	16·9	16·6	16·4	16·7	16·4	16·6	16·6	16·6	16·9	16·6
1904	16·6	16·4	16·6	16·6	16·6	16·9	16·6	16·6	16·6	16·6	16·4	16·1	16·4
1905	16·1	16·6	16·1	16·2	15·9	15·8	15·3	15·1	15·3	14·9	14·6	14·6	15·6
1906	14·1	14·9	15·7	14·9	14·4	14·1	14·4	14·4	14·1	13·6	13·6	14·1	14·4
1907	13·4	13·4	12·9	12·1	12·9	12·6	12·4	12·1	12·4	11·4	9·9	9·8	12·7
1908	10·4	9·9	8·9	8·6	8·9	8·7	8·6	10·1	10·1	9·9	10·4	11·8	9·6
1909	12·9	11·5	11·4	10·4	10·1	10·4	10·6	10·1	10·2	10·3	10·2	10·9	10·8
1910	10·7	10·7	10·7	10·8	10·9	11·4	11·0	10·4	10·6	10·8	10·3	10·8	10·8
1911	10·9	10·8	10·7	10·3	10·7	10·8	10·6	10·6	10·6	10·3	10·2	10·3	10·6
1912	10·3	10·3	10·2	10·3	10·4	10·3	10·1	9·8	9·9	9·8	9·8	10·2	10·1
1913	10·1	10·0	10·1	10·0	10·6	9·8	9·6	9·7	9·5	9·4	9·3	9·4	9·7
1914	9·0	9·5	9·6	9·7	9·7	9·7	9·5	9·1	9·6	7·8	7·6	7·6	8·9
1915	7·5	7·6	7·8	8·3	8·0	7·9	8·0	8·2	9·0	9·1	9·0	8·7	8·2
1916	8·5	8·4	8·5	8·5	8·7	9·0	9·2	9·4	10·2	10·5	10·8	11·6	9·5
1917	11·7	11·1	10·7	10·8	11·7	12·4	12·6	13·2	15·1	14·4	14·5	14·5	12·7

RATES OF EXCHANGE, 1918

January	13·98
February	13·91
March	15·14
April	15·66
May	16·69
June	17·16
July	16·88
August	16·59
September	16·66
October	13·7
November	11·9
December	10·86
Average	14·92

CHAPTER LVI

THE QUANTITY OF NOTES IN CIRCULATION

PAPER PESOS

Year	Bank notes registered	Treasury notes issued	Treasury notes deposited at mint and retired	Actual circulation
1878	14,500,000	.....	.....	14,500,000
1879	14,204,268	12,000,000	.....	26,204,268
1880	14,469,813	26,000,000	8,000,000	32,469,813
1881	12,804,505	28,000,000	9,794,900	31,009,605
1882	11,887,023	27,250,000	9,424,000	29,713,023
1883	12,306,686	26,297,966	10,235,966	28,998,686
1884	12,458,211	26,913,297	10,413,297	28,958,211
1885	13,512,835	26,687,916	10,087,916	30,112,835
1886	16,713,133	25,318,223	9,015,666	33,013,690
1887	15,407,518	24,887,916	8,415,666	31,879,768
1888	17,671,686	23,687,916	5,287,916	36,071,686
1889	17,938,015	22,487,916	2,587,916	37,838,015
1890	18,545,856	21,283,916	.....	41,303,080
1891	20,291,036	42,263,424	.....	62,554,460
1892 (1st semester)	19,313,448	31,862,368	.....	51,175,816
1892 (2nd „)	14,279,096	31,375,738	.....	45,654.834
1893	17,266,507	38,498,033	.....	55,764,540
1894	21,407,136	38,399,596	.....	59,806.732

PAPER PESOS

Year	Total circulation of treasury notes
1898	50,000,000
1899	50,000,000
1900	50,000,000
1901	50,000,000
1902	50,000,000
1903	50,000,000
1904	50,000,000
1905	80,000,000
1906	120,000,000
1907	150,000,000
1908	150,000,000
1909	150,000,000
1910	150,000,000
1911	150,000,000
1912	150,848,000
1913	169,348,000
1914	184,688,000
1915	223,989,000
1916	179,734,000
1917	177,980,000

CHAPTER LVII

THE DEVELOPMENT OF THE OPERATIONS OF THE CAJA DE CRÉDITO HIPOTECARIO

THE first steps of this state institution were difficult, for the reason that it began its operations under rather unfavourable conditions; for not only were the people of Chile unfamiliar with institutions of its kind, but at the same time credit was as yet undeveloped in the country, while the national wealth was still very modest. From the very start, however, its business was conducted by intelligent and honourable men who knew how to overcome the difficulties inherent to its administration and development. Little by little it has extended its operations, until at the present time it has come to constitute a financial institution of great importance and solidity.

The *Caja de Crédito Hipotecario* has passed through several

economic crises which have exerted a very pronounced influence upon the value of land, and to the honour of its administration we may say that in none of them has its financial stability been endangered. The first of these crises was that of 1859, the second that which began in 1876, and the third that of 1895. It is necessary to take into account, to be sure, that since 1878 the steady decline of the rate of exchange, that is, the steady depreciation of the paper currency, has greatly benefited the debtors, enabling them to meet their obligations with an ever-increasing facility.

In order to give the reader an idea of the progressive manner in which the operations of the *Caja de Crédito Hipotecario* have developed, we reproduce at this point a table showing the value of the mortgage bonds it has issued every year in the form of hypothecary loans, as also the value of the mortgage bonds it has amortised, and the balance in circulation on December 31 of each year, the figures representing paper *pesos*.

Year	Mortgage bonds issued	Mortgage bonds amortised	Balance in circulation on Dec. 31
1856	1,971,300	25,800	1,945,500
1857	1,057,100	52,800	2,949,800
1858	587,500	180,600	3,356,700
1859	925,000	.....	4,281,700
1860	848,200	127,300	5,002,600
1861	735,800	159,000	5,579,400
1862	260,500	212,800	5,627,100
1863	183,900	277,700	5,333,300
1864	215,300	47,200	5,131,400
1865	253,800	265,900	5,119,300
1866	164,500	382,000	4,901,800
1867	190,900	497,600	4,595,100
1868	202,200	790,700	4,006,600
1869	1,571,100	1,895,300	3,682,400
1870	1,126,000	293,800	4,514,600
1871	703,500	429,100	4,789,000
1872	886,500	259,300	5,316,200
1873	338,600	341,500	5,341,500
1874	2,072,700	422,000	6,992,000
1875	3,126,700	824,700	9,294,000
1876	2,472,300	439,200	11,327,100
1877	2,079,500	582,300	12,824,300
1878	3,312,100	783,300	15,353,100

Year	Mortgage bonds issued	Mortgage bonds amortised	Balance in circulation on Dec. 31
1879	2,802,600	810,100	16,751,600
1880	13,777,700	11,771,400	18,757,900
1881	3,909,300	2,611,400	20,055,600
1882	2,623,900	2,148,600	20,530,900
1883	2,014,900	939,000	21,606,800
1884	3,084,800	2,119,400	22,606,800
1885	2,728,800	1,446,900	23,771,800
1886	2,585,200	1,961,100	24,395,900
1887	4,413,400	3,073,700	25,735,600
1888	4,982,900	2,246,100	28,472,400
1889	5,518,500	3,289,300	30,701,600
1890	3,946,600	3,289,300	32,153,400
1891	5,962,600	3,820,200	24,295,800
1892	6,131,300	3,563,000	36,864,100
1893	14,994,500	3,935,200	47,873,400
1894	15,561,100	5,794,600	57,639,900
1895	17,778,700	7,373,100	68,045,500
1896	12,120,900	4,974,700	75,191,700
1897	14,843,900	7,233,300	82,802,300
1898	11,733,000	9,519,200	85,016,100
1899	12,276,300	8,210,600	89,181,800
1900	19,133,000	13,814,800	94,500,000
1901	10,510,000	9,530,300	95,496,700
1902	23,121,000	24,325,500	94,292,200
1903	20,248,600	17,982,100	96,558,700
1904	36,808,700	31,117,000	102,250,400
1905	40,653,300	27,576,700	115,327,000
1906	13,122,700	7,924,900	120,524,800
1907	36,808,000	14,175,100	143,157,700
1908	44,688,400	12,834,200	175,011,900
1909	18,503,300	11,296,300	182,218,900
1910	48,596,900	25,738,800	205,077,000
1911	55,786,900	42,516,200	218,347,700
1912	55,123,200	62,642,500	210,828,400
1913	58,549,900	16,280,000	253,098,100
1914	57,066,400	20,161,000	290,003,500
1915	55,409,500	32,423,700	312,989,300
1916	37,705,500	19,576,100	331,118,700
1917	46,713,700	20,143,400	357,698,000

In order to show the relative number of mortgage bonds issued at the various rates of interest, we also reproduce at this point the following table giving the number of 8, 7, 6, and 5 per cent. mortgage bonds in circulation on December 31 of the years 1879, 1889, 1899, and 1909:

Per cent.	1879	1889	1899	1909
8	13,198,400	216,700	62,632,100	41,745,600
7	841,800	1,297,500	7,692,100	64,522,100
6	.....	21,736,100	16,349,100	74,443,100
5	2,711,400	7,451,300	2,508,500	1,508,100

As set forth in the preceding chapter, the *Caja de Crédito Hipotecario* was created without any large amount of capital; but it has gradually been forming a reserve fund, the development of which is shown by the following table:

Year	Mortgage bonds issued	Reserve fund	Per cent. reserved
1868	4,006,600	47,359	1·182
1879	16,751,600	833,194	4·973
1889	30,701,600	2,254,450	7·343
1899	89,181,800	4,321,724	4·845
1909	182,218,900	6,895,582	3·784

CHAPTER LVIII

THE OPERATIONS OF THE CAJA DE CRÉDITO HIPOTECARIO IN FOREIGN CURRENCIES

THE *Caja de Crédito Hipotecario* has also issued mortgage bonds in English pounds and French francs for placement in the European markets, especially in London and Paris. These operations, the object of which has been to take advantage of the low interest rates prevailing in those markets for the benefit of the Chilean debtors, were beginning to undergo considerable development when the outbreak of the World War brought them to a complete standstill.

The following table shows the value of the mortgage bonds in circulation on December 31 of each year from 1909 to 1917 inclusive:

Year	Pounds	Francs
1909	8,910	.....
1910	8,725	.....
1911	184,485	39,824,000
1912	642,335	108,668,500
1913	626,790	107,038,500
1914	681,765	105,326,000
1915	641,155	103,515,000
1916	630,450	100,184,500
1917	575,140	77,447,500

As will be seen, since 1915 these operations in foreign currencies, far from increasing, have steadily decreased. The Chilean debtors took advantage of the high rate of exchange brought about by the war for the purpose of effecting extraordinary liquidations of their debts. Those who contracted debts at the pre-war exchange rate of 10*d.*, a few years later could entirely amortise or cancel their obligations at the exchange rate of 12*d.*, 14*d.*, and even 17*d.* Thus, for example, a man who had contracted a debt of 10,000 pounds sterling at the exchange rate of 10*d.*, by selling his bonds at par could have obtained 240,000 *pesos* in Chilean money, and afterwards, when the rate of exchange rose to 16*d.*, he could have paid his entire debt of 10,000 pounds sterling with 150,000 *pesos* of Chilean money, thereby gaining approximately 100,000 *pesos*. To conduct these operations it was sufficient for the debtor to convert his debt in the *Caja de Crédito Hipotecario* itself, that is, to exchange one debt in English pounds or French francs for another in Chilean *pesos*.

But although the extraordinarily high rate of exchange brought about by the war enabled the Chilean debtor to liquidate his debts contracted in English or French money under exceptionally favourable conditions, that is, with direct profit, to himself, had the rate of exchange gone down instead of up, the operation, on the other hand, would have resulted in a corresponding loss for him. In general it may be looked upon as very dangerous for a landowner in a country operating on a paper currency basis to contract debts in the gold currency of other countries, because the greater part of his receipts are in paper money. For this reason it follows that every debt contracted in foreign gold involves an element of speculation. In the case of a manufacturer whose establishment produces articles of exportation, such as nitrate, the debts contracted in gold do not involve the same element of danger, since the products themselves are as good as gold. But the Chilean agriculturists, for instance, are not in this position, since the majority of their products are sold in the home market and consequently paid for in paper currency. As regards urban

properties, the revenues they yield are paid almost exclusively in paper currency.

In conclusion it may be said that the contraction of debts in foreign gold can become general, without involving the element of danger risked today by the Chilean debtor, only when the country's monetary system is modified in such a way as to establish a stable rate of exchange.

CHAPTER LIX

THE ORGANIZATION OF MORTGAGE BANKS BY PRIVATE COMPANIES IN CONFORMITY WITH THE LAW OF 1855

As we saw in chapter XXI, the law of August 29, 1855, which authorized the creation of the *Caja de Crédito Hipotecario*, also provided for the establishment of other mortgage banks for the carrying on of similar operations.

In conformity with this law numerous private corporations have been organized, not only in Santiago, but also in other cities throughout the Republic, with the special object of issuing certificates of credit or mortgage bonds like those of the *Caja de Crédito Hipotecario*. At the present time the incorporated companies doing business of this kind are the *Banco Chileno Garantizador de Valores*, the *Banco Hipotecario de Chile*, and the *Banco Hipotecario de Valparaiso*.

For some time certain banks of deposit, such as the *Banco de Chile*, the *Banco Valparaiso*, the *Comercial de Chile*, etc., maintained a special department for the negotiation of mortgage bonds. At the present time, however, these banks have discontinued their mortgage bond departments, so that the only institutions now engaged in that branch of business are the *Caja de Crédito Hipotecario* and the mortgage banks above mentioned.

The following table indicates the value of the mortgage bonds issued by the mortgage banks from 1899 to 1916, the figures representing paper *pesos*:

Year	Mortgage bonds issued	Mortgage bonds amortised	Balance in circulation on Dec. 31
1899	4,019,800	11,103,200	58,369,200
1900	7,878,600	9,689,400	56,558,400
1901	8,089,200	7,734,244	56,913,356
1902	10,283,600	8,762,368	58,434,588
1903	14,536,400	9,990,732	62,980,256
1904	17,311,000	16,184,716	64,106,540
1905	19,084,000	16,979,264	66,211,270
1906	20,361,300	10,774,866	75,797,710
1907	27,801,900	13,745,786	89,853,824
1908	23,427,400	21,821,859	91,459,365
1909	23,261,100	13,501,464	101,219,000
1910	34,564,300	16,775,553	119,007,748
1911	43,713,300	26,464,900	136,256,148
1912	41,959,200	21,423,500	156,791,778
1913	29,289,900	19,175,825	166,905,853
1914	23,104,500	15,226,100	174,790,253
1915	26,456,000	17,058,035	184,188,218
1916	23,158,500	14,606,600	192,740,118

CHAPTER LX

QUOTATIONS OF THE MORTGAGE BONDS OF THE CAJA DE CRÉDITO HIPOTECARIO AND OTHER MORTGAGE BANKS

The mortgage bonds issued by the Chilean mortgage banks are bought and sold chiefly in the Chilean market. Before the World War some of the mortgage banks, such as the *Caja de Crédito Hipotecario*, enjoyed such credit that their bonds were likewise quoted in foreign markets, especially in Europe, where there was always a greater offer of capital for investment. Notwithstanding their recognized solidity, however, these institutions have not been able to place their bonds outside of Chile to any great extent, owing to the fact that they represent an inconvertible paper currency which fails to inspire foreign investors with the necessary confidence. The only Chilean mortgage bonds that have been quoted in the foreign markets, consequently, are the gold bonds to which we referred in the preceding chapter.

The tables reproduced below, showing the average quotations of the mortgage bonds of the *Caja de Crédito Hipotecario* and the private mortgage banks, indicate the prices corresponding to 100 *pesos* of the different series. The reader will find in them an expression of what the Chilean market has been with respect to these mortgage bonds. At the time of crises, as in 1878 and 1896, it will be noted that their price declines strongly, according as interest rates go up.

The quotations of the mortgage bonds issued by the *Caja de Crédito Hipotecario* are higher than those of the other mortgage banks for the reason that the former has enjoyed greater credit, so that its mortgage bonds find an easier market. Despite the fact that the *Caja de Crédito Hipotecario* has no capital of importance, but only a comparatively small reserve fund, the public has considered that it is protected by the responsibility of the state. Of the other mortgage banks the *Banco Hipotecario de Chile* enjoys the greatest credit, so that its quotations average nearly as high as those of the *Caja de Crédito Hipotecario.*

When a mortgage bank fails to inspire confidence, that is, when the public has any doubt regarding its solvency, its mortgage bonds decline in value, as has been going on for about a year with those of the *Banco Chileno Garantizador de Valores.* But such cases are exceptional in Chile. The mortgage banks have thus far enjoyed a well-deserved credit, generally speaking, and have rarely failed to meet their obligations.

AVERAGE QUOTATIONS OF THE MORTGAGE BONDS (OF 100 PESOS EACH) OF THE CAJA DE CRÉDITO HIPOTECARIO

Year	8 per cent. bonds	7 per cent. bonds	6 per cent. bonds	5 per cent. bonds
1872	104	98	..	81
1873	100	92	..	75
1874	96	87	..	71
1875	96	88	..	72
1876	93	86	..	71
1877	91	84	..	69
1878	83	75	..	64
1879	93	87	..	69
1880	103	100	..	86
1881	104	103	101	90
1882	103	102	101	90
1883	103	102	98	87
1884	104	102	98	88
1885	103	102	96	88
1886	103	102	96	86
1887	103	103	99	89
1888	104	103	99	92
1889	103	102	98	90
1890	103	102	95	88
1891 [1]	..	..	..	..
1892	104	102	96	90
1893	103	99	92	85
1894	98	82	88	82
1895	91	83	79	79
1896	85	79	75	..
1897	90	84	81	78
1898	91	86	82	75
1899	96	90	87	..
1900	100	95	91	..
1901	102	97	91	86
1902	103	99	94	88
1903	103	100	96	87
1904	103	102	97	91
1905	103	103	98	93
1906	103	102	95	90
1907	101	98	92	88
1908	102	97	90	70
1909	100	96	92	..
1910	104	101	94	..
1911	103	102	95	..
1912	100	95	89	..
1913	94	88	84	..
1914	91	87	81	..
1915	92	88	76	..
1916	97	90	85	..
1917	98	91	87	..

[1] No quotation for 1891 on account of the civil war.

AVERAGE QUOTATIONS OF THE MORTGAGE BONDS OF THE MORTGAGE BANKS

Year	8 per cent. bonds	7 per cent. bonds	6 per cent. bonds	5 per cent. bonds
1872	98	96	..	78
1873	91	89	..	74
1874	94	85	..	71
1875	92	85	..	66
1876	91	75	..	65
1877	87	78	..	..
1878	78	71	..	..
1879	92	85	..	69
1880	103	93	100	..
1881	102	103	100	89
1882	104	103	101	90
1883	103	102	97	86
1884	102	99	94	86
1885	101	97	91	86
1886	101	98	89	85
1887	103	100	95	88
1888	102	101	97	90
1889	101	98	95	91
1890	98	95	92	85
1891 [1]	..	..	..	..
1892	102	100	95	89
1893	100	93	87	87
1894	94	88	81	81
1895	86	86	81	79
1896	79	77	72	..
1897	81	78	..	..
1898	83	77	65	67
1899	91	85	78	..
1900	97	90	86	86
1901	100	94	88	84
1902	101	94	86	85
1903	102	97	90	85
1904	103	99	92	85
1905	103	102	95	85
1906	102	99	93	84
1907	98	90	88	..
1908	90	88	82	..
1909	92	85	77	..
1910	100	94	86	..
1911	102	98	92	..
1912	97	93	87	..
1913	90	85	84	..
1914	84	80	77	..
1915	88	83	74	..
1916	92	85	80	..
1917	93	90	90	..

[1] No quotation for 1891 on account of the civil war.

CHAPTER LXI

THE INTERVENTION OF THE GOVERNMENT IN THE OPERATIONS OF THE MORTGAGE BANKS

The law of August 29, 1855, which created the *Caja de Crédito Hipotecario* and authorized the establishment of private mortgage banks constituted as incorporated companies, likewise provided for a certain intervention of the state in the operations of these mortgage banks.

Article 34 of the said law gave them the right to appoint their own Board of Directors, and added: 'but the president shall be appointed by the President of the Republic from a group of three designated by the Board.' Thus the Board of Directors was to form a ternary and the government was to designate one of the members thereof as president of the bank. This provision has fallen into disuse. In practice each bank has elected its own *Gerente*, which is the title commonly borne by the head of a bank in Chile, the manner of his election being governed by the statutes of the bank in question.

In practice the state has limited its intervention to the appointment of a special delegate, who is charged with fiscalizing the operations of each bank in the name of the government. As a matter of fact, however, this form of intervention has not proved to be very effective. The *Banco Chileno Garantizador de Valores*, for example, has been very badly administered, as became evident last year; having departed from the rules established by the law of 1855, it found itself in serious financial straits, the special delegate of the government failing to perform his duty of fiscalizing its operations and reporting to the government, in due time, the mistakes that had been made.

The true guarantee of a proper administration of these mortgage banks, as also of the several banks of issue, has been furnished, not by any fiscalization on the part of the government, which in reality has not amounted to anything, but by the seriousness and honourableness of their administrative officers.

CHAPTER LXII

THE ESTABLISHMENT AND DEVELOPMENT OF SAVINGS BANKS

'SAVINGS bank' is the name given to an institution intended to receive small deposits of money, like other banks, and to pay the highest possible rate of interest thereon, with the object of encouraging thrift among people of moderate circumstances.

The Santiago Savings Bank (*Caja de Ahorros de Santiago*) was established in 1884 at the instigation of the Board of Directors of the *Caja de Crédito Hipotecario*; and since then similar institutions have been founded in the same way in other cities throughout the Republic.

In 1910 there was promulgated a law whereby all these banks, except that of Santiago, were consolidated in a special institution called the National Savings Bank (*Caja Nacional de Ahorros*), the administration of which was entrusted to the Board of Directors of the *Caja de Crédito Hipotecario.*

The savings banks or *cajas de ahorros* receive deposits of four kinds: (1) call deposits; (2) time deposits; (3) conditional deposits; (4) deposits for the creation of an annuity fund. In the third kind the depositor's money is accepted with the proviso that he will not withdraw any of it until his total deposits amount to 500 *pesos.* The object of the fourth kind is the creation of an annuity or pension fund in favour of the depositor himself or of a beneficiary designated by him.

The savings banks also sell savings stamps in denominations of 0·20, 1 and 5 *pesos,* while many of them also distribute small money boxes for the depositors to fill with small coins. When a depositor has collected a certain sum in his money box he takes it to the bank, where it is opened in his presence and its contents credited to his account.

The money received by the savings banks is ordinarily invested in the mortgage bonds of the *Caja de Crédito Hipotecario* while some of it is used for making loans secured by mortgage bonds. Thus a depositor who has purchased bonds through

the savings banks has the right to borrow money on the security of the bonds purchased.

All these savings banks are state institutions maintained for the promotion of the public interest, and up to the present time their administration has been quite satisfactory. Gradually they have organized branches throughout the republic, and generally speaking they have done much to encourage thrift.

The following table shows the increase of savings bank deposits from 1907 to 1916, the figures representing the balance on December 31 of each year :

Year	Paper pesos
1907	23,866,131
1908	30,224,030
1909	32,922,730
1910	39,013,556
1911	53,213,850
1912	71,164,176
1913	93,032,772
1914	112,362,635
1915	125,090,003
1916	143,511,101

As stated above, the Chilean savings banks were established upon the initiative of the *Caja de Crédito Hipotecario* ; and their administration has been conducted by the latter's Board of Directors. As a matter of fact, however, inasmuch as they are entirely separate institutions, they might also operate under independent management.

CHAPTER LXIII

THE VALUE OF THE EXPORTS AND IMPORTS OF CHILE

GOLD PESOS OF 18*d.*

Year	Imports	Exports	Year	Imports	Exports
1857	51,333,960	50,269,464	1887	178,665,153	125,716,577
1858	45,780,959	46,156,419	1888	128,181,807	154,300,974
1859	46,627,873	49,577,275	1889	137,412,249	139,255,434
1860	53,889,077	61,860,747	1890	143,321,389	144,381,805
1861	41,053,379	50,096,276	1891	134,445,555	138,703,623
1862	43,484,862	55,520,055	1892	164,673,219	135,543,969
1863	49,938,323	49,039,701	1893	144,053,511	152,517,463
1864	46,447,260	67,065,850	1894	115,020,967	152,085,331
1865	54,060,644	65,441,482	1895	146,102,729	153,941,973
1866	48,521,083	69,016,550	1896	156,397,032	156,980,986
1867	64,661,605	79,806,475	1897	138,283,699	136,703,623
1868	66,124,051	79,538,652	1898	102,262,058	168,069,431
1869	69,687,246	70,950,266	1899	106,260,358	163,106,133
1870	71,540,352	68,376,207	1900	128,538,142	167,674,635
1871	67,966,037	81,619,057	1901	139,300,766	171,844,976
1872	89,292,301	95,641,893	1902	132,428,204	185,879,965
1873	94,424,926	95,272,291	1903	142,470,569	196,058,912
1874	97,378,271	92,620,420	1904	157,152,080	217,558,473
1875	95,343,750	87,449,755	1905	188,596,418	266,804,729
1876	88,227,602	85,289,505	1906	225,265,516	275,083,674
1877	73,031,910	69,438,221	1907	293,681,855	280,080,730
1878	63,041,385	69,774,911	1908	267,264,169	319,149,072
1879	56,986,520	78,206,038	1909	262,082,763	306,429,909
1880	63,678,333	88,036,053	1910	297,485,697	328,827,176
1881	83,535,718	104,027,138	1911	348,990,354	339,409,363
1882	107,650,234	139,946,652	1912	334,454,779	383,227,949
1883	144,943,795	149,278,307	1913	329,517,811	396,310,443
1884	111,650,008	121,951,394	1914	269,756,699	299,675,435
1885	84,648,439	108,214,759	1915	153,211,557	299,591,344
1886	93,248,088	108,173,647	1916	222,520,828	505,962,916

CHAPTER LXIV

THE PUBLIC REVENUES AND EXPENDITURES OF CHILE

GOLD PESOS OF 18*d.*

Year	Revenues	Expenditures	Year	Revenues	Expenditures
1857	17,316,157	16,954,657	1887	54,098,928	74,093,763
1858	17,234,832	18,722,941	1888	67,346,575	59,574,846
1859	24,418,107	20,406,391	1889	69,228,447	77,442,086
1860	21,145,907	18,767,567	1890	75,155,919	91,049,026
1861	18,045,695	16,343,248	1891	91,521,258	98,184,790
1862	22,244,792	16,071,331	1892	67,957,870	67,554,429
1863	22,558,513	17,898,711	1893	62,298,145	49,824,464
1864	27,483,172	20,175,922	1894	62,544,152	48,744,923
1865	31,408,232	25,311,629	1895	83,994,292	74,106,460
1866	24,805,393	35,138,063	1896	99,347,742	102,755,814
1867	27,404,820	36,063,045	1897	72,317,676	71,736,038
1868	28,554,421	30,520,786	1898	109,265,212	88,301,560
1869	32,524,152	30,306,409	1899	98,444,845	82,351,949
1870	34,306,653	32,248,796	1900	109,762,239	92,373,842
1871	29,289,557	33,225,140	1901	91,788,469	103,328,302
1872	29,659,027	35,825,998	1902	86,391,966	103,120,397
1873	31,480,215	39,615,248	1903	101,368,654	90,626,786
1874	30,096,565	49,899,244	1904	116,798,794	110,251,385
1875	33,006,405	47,597,205	1905	115,064,925	103,972,861
1876	32,657,577	41,894,234	1906	146,571,846	119,128,096
1877	27,602,784	43,279,458	1907	144,402,487	120,857,556
1878	27,856,901	32,222,563	1908	138,318,220	107,476,451
1879	44,978,781	43,543,374	1909	135,000,287	125,768,851
1880	65,545,149	43,950,008	1910	154,866,569	163,247,211
1881	54,564,736	54,878,271	1911	165,845,222	153,170,746
1882	62,192,898	76,055,211	1912	210,967,726	186,004,026
1883	72,865,382	84,191,382	1913	182,856,930	165,274,432
1884	56,976,236	72,890,390	1914	139,388,712	153,558,677
1885	42,663,613	50,442,450	1915	128,167,537	131,840,134
1886	41,239,473	67,282,464	1916	183,468,163	150,749,420

INDEX

Acosta, Father, cited, 3.
Agriculture: condition of, 29, 79 *et seq.*, 160; capital invested in, 123; loans for promotion of, 194.
Alphonso the Wise, 11.
Alvarez, Dr. J., cited, 7–8, 10, 22.
Amsterdam, Bank of, 34.
Amunátegui, Domingo, cited, 33.
Antofagasta, 83, 92.
Araucanos, revolt of, 79.
Arcos, Antonio, bank established by, 60 *et seq.*
Argentine Republic, 16, 132, 175; currency modifications in, 37; boundary disputes with, 110, 113, 116; note circulation in, 126–127; foreign banks in, 130; rate of exchange in, 146–147; Conversion Fund in, 150, 153–154, 171–172; development of industries in, 160.
Atacama, silver deposits in, 78–79.

Balmaceda (President), 102–103.
Bank notes: issuance of, 69–70, 75, 82, 100, 120; inconvertibility of, 83, 90 *et seq.*; circulation of, 101 *et seq.*, 107–108; redemption and cancellation of, 113–114. *See also* Notes *and* Treasury notes.
Banks: establishment and development of, 34 *et seq.*; bullion, 41, 53; operations of, 70, 189 *et seq.*; 'free banking', 71 *et seq.*; bank of issue law, 73 *et seq.*; mortgage, 76 *et seq.*, 205 *et seq.*; balances of, 1869, 84, 1878, 86, 1903–1917, 142–143; paid-in capital, deposits and loans of, 1879–1894, 98; foreign, 128 *et seq.*; central, of issue, 173–174; deposits in, 1914, 187; Office of Bank Inspection, 188; handling of consignments by, 194; savings, 211 *et seq.*
Barley, price of, 119.
Berlin, 129–130.
Bills of Exchange, 148–149, 176; discounting of, 154, 193 *et seq.*; bought and sold in 1918, 197; rates of exchange, 1830–1878, 197–198.
Bimetallic system, 12, 25, 49, 67; in America, 5–6.
Bolivia, 83, 101; modifications of coins in, 38; war with, 92–93.
Bonds, mortgage. *See* Mortgage bonds.
Boston, 34.
Boundary disputes with Argentine Republic, 110, 113, 116.
Brant, Augusto, 54.
Brazil, 147, 150, 160; note inflation in, 126–127.
Buenos Aires, 27, 117, 154.
Bunster, Onofre, 56.

Cacao, used as money, 2.
California, discovery of gold in, 79.
Canada, paper money used in, 17.
Certificates, issuance of, 57, 61, 69.
Charles III, 36.
Charles IV, 37.
Charles V, 7, 10–11.
Civil war of 1891, 102–103.
Clavijero, Francisco S., cited, 2.
'Clipped' currency (*macuquina*), 42, 47–48.
Cloth, used as money, 2, 16.
Coins: 'token', 15, 50 *et seq.*, 65, 67; ordinances concerning, 21 *et seq.*; weight, fineness, etc., 22 *et seq.*; export of silver, 25; modifications of, 37–38.
Cologne, 129–130.
Colombia, note inflation in, 126.
Columbus, Christopher, 1–2.
Condor, 65.
Conversion Fund: object of, 144–145; in Argentina, 150, 153–154, 171–172; approval of, by government, 153 *et seq.*; disadvantages of, 162 *et seq.*; status of, 180 *et seq.*
Copiapo, 79.
Copper: used as money, 2; as alloy, 14, 52; price of, 85, 105, 118, 160, 165; export of, 178, 193.
Corona, coinage of, 7–8.
Cortes, 2.
Counterfeiting, 41–42.
Credit: crisis, 78 *et seq.*; expansion of, 83, 106; abuse of, 127.
Crises: of 1860, 78–79; of 1865, 81; of 1878, 85; of 1914, 156–157; of 1891, 175; credit, 128, 171–172, 201.
Cruchaga, Miguel, cited, 53.

De la Vega, G., cited, 3.
Doblón de dos escudos (gold coin), 8.
Doblón de ocho escudos (gold coin), 8; weight, fineness, etc., 22 *et seq.*

Drafts, discount rate of, 192.
Duties, on exports, 97–98.

Ecuador, modifications of coins, 38.
England, Bank of, 34, 138, 172.
Escudo, coinage of, 7–8.
Exchange rate, fluctuation of, 83 *et seq.*
Expenditures, of government, 98; of 1857–1916, 214.
Exports: of money, 43, 86; duties, 97–98; of nitrate, 135, 176 *et seq.*, 193; value of, 1912–1917, 161, 1857–1916, 213; of wheat, 193; of copper, 193.

Fabrat, Enrique Lisbona, cited, 34.
Ferdinand VII, 37.
France, Bank of, 172.
Futures, buying and selling of, by banks, 195.

Garland, Alexander, cited, 10–11, 37.
Gold: legal value of, 5 *et seq.*; coined in Santiago mint, 1749–1770, 18; 1772–1809, 20; at a premium, 27, 118–119, 121, 127, 176; amount coined, 1810–1850, 40; market ratio of, to silver, 1820–1865, 46; export of, 1874–1878, 86.
Gold standard, 115, 165.
Gonzaga, Antonio Guill y (President of Chile), report on mint by, 19.
Gonzalez, Marcial, cited, 80.

Hamburg, 129–130.
Hansen, Emilio, cited, 37.
Holdsworth, J. T., cited, 35.
Huasco, bullion bank at, 41, 53–54.
Huidobro, Francisco Garcia de, establishment of mint by, 17 *et seq.*

Imports, 142; value of, 1912–1917, 161; 1857–1916, 213.
Incas, 2.
Industries, condition during war, 160–161.
Inflation: of government notes, 120 *et seq.*, 137.
Interest rates, 85, 97, 115; 1865–1906, on deposits, 189–190; on time loans, 1870–1918, 191; on call loans, 1868–1912, 192.
Iregui, Antonio J., cited, 126.

Junta de Gobierno, 52–53.

Lafuente, cited, 4.
Land, value of, 32–33.
Laughlin, cited, 2.
La Serena, establishment of mint at, 43.
Levene, Ricardo, cited, 16, 24, 27.
Lima, 78.
Loans: time, 190; call, 191–192; for agricultural promotion, 194.
London, 123 *et seq.*

Mackenna, V., cited, 13, 83.
Massachusetts, paper money used in, 17.
Media-onza, weight, fineness, etc., 22 *et seq.*
Medina, J. T., cited, 2, 4, 13 *et seq.*, 18–19, 41, 46–47, 51–52.
Mexico: commodity money used in, 2; silver mining in, 23, 27; bullion bank in, 36, 54; currency modifications in, 37–38; subsidiary coins used in, 52.
Mint: established at Santiago, 17 *et seq.*; government supervision of, 19; condition during independence, 39 *et seq.*; at La Serena, 43.
Monetary laws: first, 44 *et seq.*; of 1843, 48 *et seq.*; of 1851, 64–65; of 1860, 66 *et seq.*; modification of, 145 *et seq.*
Money: commodity, 1 *et seq.*, 16; value of, in sixteenth century, 7; prohibition of export of, in Spain, 14–15; scarcity of, 15–16; purchasing power of, 28 *et seq.*; export tax on, 43. *See also* Paper Money.
Mortgage banks, 76 *et seq.*, 205 *et seq.*
Mortgage bonds: 76 *et seq.*, 115; issued and amortized, 1856–1917, 201–202, 206; foreign placed, 203; quotations of, 1872–1917, 208–209.

National City Bank (New York), work of agencies of, 130, 134–135, 195.
New York, 130 *et seq.*
Nitrate: acquisition of, deposits, 95, 97, 137; price of, 105, 118, 160, 165; export of, 135, 176, 193; effect of war on, industry, 158–159, 161, 172, 177–178, 181; credit facilities for, 183.
Notes: issuance of government, 94 *et seq.*, 121 *et seq.*, 136; diminished circulation of government, 99; circulation of, in Argentine Republic, 126–127; redemption of, 144; to help nitrate industry, 158–159, 172; in 1919, 182–183. *See also* Bank notes *and* Treasury notes.

O'Higgins (President of Chile), 28, 41, 55.
Onza, weight, fineness, etc., 22 *et seq.*

Ordinances concerning coins, 21 *et seq.*
Ossa, Nicomedes C., cited, 68–69.

Paper money: 16–17, 94; in United States and Peru, 38–39; attitude toward, 62, 105, 110–111; restriction of issue, 99–100; re-establishment of, 118; inflation of, 126 *et seq.*; in circulation, 1918, 183.
Paraguay: token money in, 16; modifications of coins in, 38.
Peru, 2–3, 132; mint in, 14–15; modifications of coins in, 37; monetary system, 38–39; war with, 92 *et seq.*
Philip II, 8, 16, 24.
Portales, 39.
Potosi: mint at, 11, 14; silver mining at, 18, 23; gold at a premium at, 27; bullion bank at, 54.
Prices, 29 *et seq.*, 105; rise of, 97, 118, 122, 125, 160, 165; decline in export, 178.

Ratio: between gold and silver, 1493–1820, 5–6, 1537–1779, 9, 12, 23–24; modification of, 24; market, of gold and silver, 1820–1865, 46, 49, 64.
Real, coinage of, 8; weight, fineness, 22 *et seq.*
Redemption of notes, 113–114, 144–145, 151.
Renjifo (Minister of Finance), cited, 42, 44, 50.
Requeijo, Perez, cited, 11.
Revenues, 98; from nitrate export, 137; public, 1912–1917, 178, 1857–1916, 214.
Rio de la Plata, scarcity of money in, 15–16.
Rojas, Casto, cited, 11, 35.
Rosales, Father, cited, 10.
Ross, Agustín, cited, 61, 69–70, 87.
Rothschild & Sons, N. M., 138, 140, 144.

Santelices, R., cited, 53, 61.
Santiago, 12, 14 *et seq.*, 116 *et seq.*; status of mint at, 43; bank established at, 69–70; foreign banks at, 130, 135.
Savings banks, 211 *et seq.*
Savings stamps, 211.
Securities, quotations, 1878, 85, 115.
Seneuil, Juan G. C., adviser to Minister of Finance, 71 *et seq.*
Sevilla, 15.
Silver: legal value of, 5 *et seq.*; mined at Potosi, 18; coined at Santiago mint, 1772–1809, 20; export of, coins, 25; amount coined, 1810–1850, 40; market ratio of, to gold, 1820–1865, 46; premium on, 47; suspension of free coinage of, in United States, 84; decline in price of, 85; export of, 1874–1878, 86; accumulation of, 101.
Slavery, 28.
Sobral, Martinez, cited, 36, 38.
Spain, 166; monetary system of, 7 *et seq.*; policy in regard to gold and silver, 15; supervision of Santiago mint by, 17 *et seq.*; modification of monetary system of, 25–26; banks of, 34; war against, 68, 81.
Subercaseaux, G., cited, 17, 100.
Suber Caseaux, Captain, F., 20.

Tacna, 96.
Tarapaca, 95; foreign bank at, 129.
Taxes: commodity money in payment of, 16; on banks, 187–188.
Terry, José A., cited, 126, 175.
Tin, used as money, 2.
'Token' coins, 15, 50 *et seq.*, 65, 67.
Toro, Deputy, cited, 42, 48.
Treasury notes: retirement of, 99 *et seq.*, 105 *et seq.*; circulation of, 103, 107 *et seq.*, 113, 136; cancellation of, 114, in 1919, 183.

United States, 9, 95, 135, 169 *et seq.*; banks of, 35; monetary system, 38; suspension of free silver coinage in, 84; paper money in, 38–39, 128.
Uruguay, 130 *et seq.*; modifications of coins of, 38.

Valparaiso, 25, 61 *et seq.*, 156, 175 *et seq.*; bank established in, 69–70; foreign bank in, 130, 134.
Venezuela, modifications of coins of, 38.
Venice, Bank of, 34.
Vial, M. Camilio, 60.
Vicuña, B., cited, 12, 20.

Wampum, 2.
Wheat, price of, 119, 160 *et seq.*; export of, 193.
White, Horace, cited, 34.
Wiesser, T. von, cited, 4

3700

DATE DUE

332.1 Subercaseaux

S941m Monetary & Banking

Policy of Chile

Main
HG
844
.S82

228586